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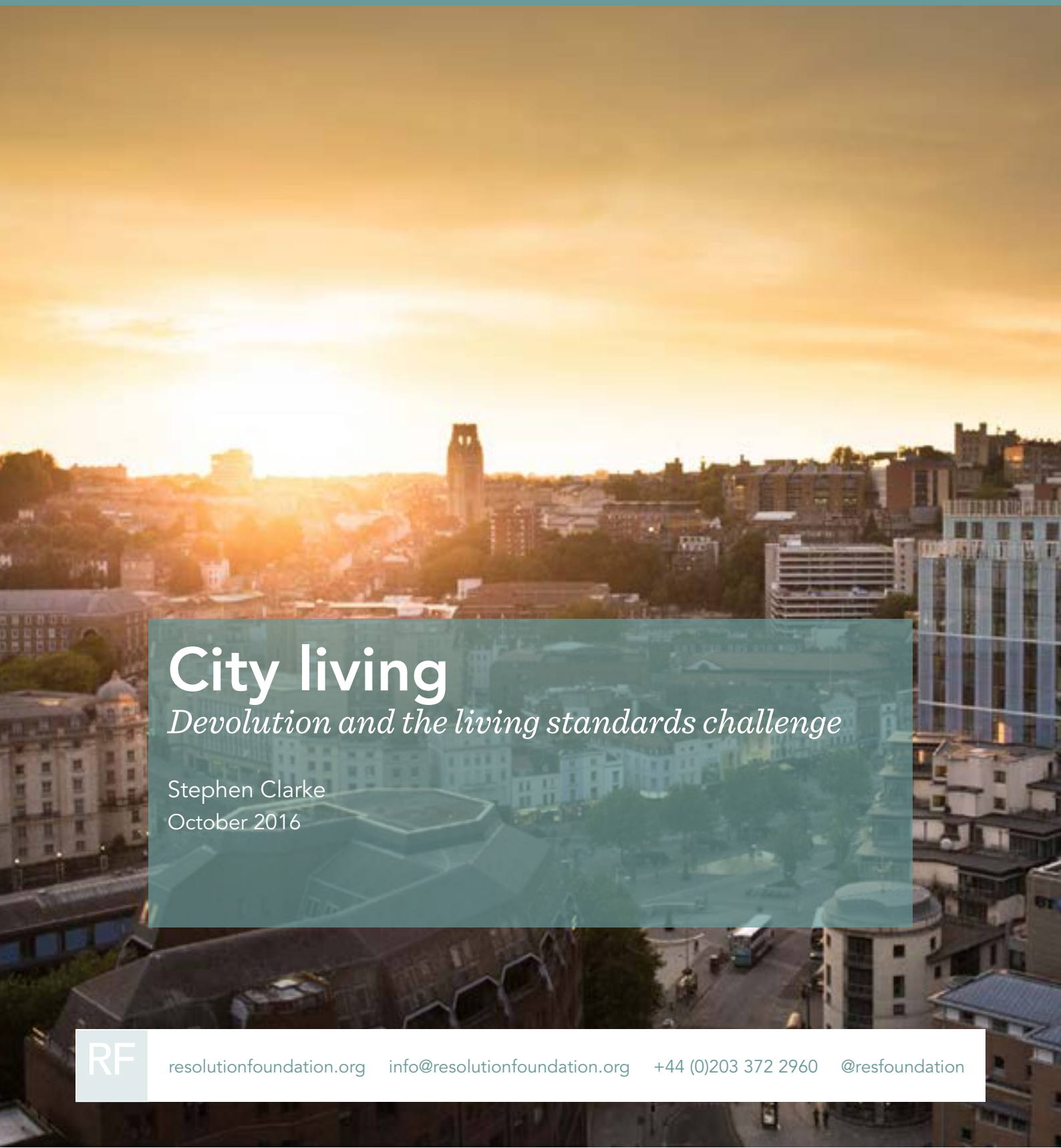

City living
Devolution and the living standards challenge

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Executive summary

Devolution offers an opportunity to address the living standards deficit in Britain's cities

Significant devolution is coming to some of Britain's major city regions and remains on offer to others. This provides an unprecedented opportunity for local leaders to experiment and devise tailored solutions for their area. But it also brings with it responsibilities to understand and to improve the living standards of the population. To date, much of the discussion around devolution has focused on what powers cities need to grow and be made more productive. This is important but it is not the end of the debate we need about living standards in our great cities, not least because productivity growth is proving difficult to realise and is not automatically feeding through to living standards across the cities concerned. Leaders, new and old, will be judged not on what powers they get, but on how they raise living standards and whether growth is shared across people and places.

This paper marks the first step in the Resolution Foundation's investigation into living standards across Britain's major city regions ahead of the election of city-wide mayors scheduled for May 2017 and beyond. We hope the investigation will inform discussions around devolution and provide an evidence base to feed both election debates and the programmes adopted by future mayors and other leaders.

Over the course of the project, we will publish in-depth explorations of a range of drivers of living standards in selected city regions that will be choosing directly elected mayors next May. However, in this launch paper we take a step-back and consider the landscape across all of Britain's city regions.

We show that fresh policy thinking is required because – in contrast to the situation in most other developed economies – living standards in the majority of Britain's major cities are *lower* than in the rest of the country.[1] On

[1] The UK is an outlier in terms of the performance of cities. In Germany, Spain, Italy, France and the USA around a third of cities with 250,000 people or more have unemployment rates above the national average, in the UK 80% of cities do. In terms of GDP per capita, similarly sized countries tend to have more cities that perform at or well above the national average. However, of our large cities, only Bristol and London stand out as being significantly more productive than the national average. OECD Regional Statistics and Indicators, 2012-2013 (latest available data). UK

measures such as pay, employment and income Britain's major cities perform below the national average. This disparity is longstanding and, although the fortunes of different cities have waxed and waned over the past few decades, the gap between the major cities and the rest of the country has endured. While addressing the overcentralized nature of the country's political system is important in and of itself, for the coming generation of new city leaders turning around this living standards deficit should be the main purpose of this new era of city leadership.

Unlike in many similarly sized developed countries, pay in the majority of Britain's major cities is below the national average. In Sheffield median gross hourly pay is £10.54, whereas in the rest of the country outside of the major cities pay is significantly higher at £11.25. As a result many of Britain's cities will see large numbers of workers on the National Living Wage by 2020. Whereas one in seven employees across the country will be paid the legal minimum in 2020, it will be one in five in the Tees Valley, Nottingham and Liverpool. While the boost to pay that the NLW will bring is welcome this bunching of workers on the legal minimum will require much more focus on building opportunities to progress to higher-paid roles in some of our big cities.[2]

As you would perhaps expect given the prevalence of low pay in Britain's cities, spending on benefits is also higher. Benefit spending per person in the rest of Britain is around £2,588 in 2015/16, yet it was £3,216 in Liverpool, £2,971 in Tees Valley and £2,952 in the North East city region. These figures include non-working-age benefits, if we just looked at benefits for people of working-age the difference would be even starker. Given the cuts to working-age benefits that are planned for this parliament, city regions, aside from the West of England will experience above-average reductions in benefits, acting as a major drag on living standards. Benefits will be reduced by around £790 per adult in our cities by 2020. This is £170, or around 30 per cent, more than the loss that working age adults in the rest of Great Britain are predicted to face.[3]

[2] C Darcy & A Hurrell, *Escape Plan: Understanding who progresses from low pay and who gets stuck*, Resolution Foundation, November 2014

[3] C Beatty & S Fothergill, *The uneven impact of welfare reform: The financial losses to places and people*, Sheffield Hallam University Centre for Regional Economic and Social Research, March 2016. The West of England region is predicted to see a loss of £585, £35 less than the rest of Great Britain.

Despite these problems, many cities are simultaneously experiencing rising housing costs, which are placing further strains on people's living standards. This is reflected in the fall of homeownership – a phenomenon that is not just confined to the South East. Many Northern cities have experienced some of the largest falls in home ownership since the mid-2000s, and have witnessed an increasing share of income spent on housing costs as a result.

The result is that household incomes are lower in the majority of Britain's major cities than in the rest of the country. To address this issue the mayors that are likely to be elected next May will need to understand the specific living standards challenges their city faces. Indeed a proper debate about what those challenges are in each city is an essential pre-requisite to achieving devolution's key objective: better tailored policy and local economic leadership. To that end this report highlights the following problems:

» In **Manchester** there is a need to spread prosperity more evenly. Trafford has an employment rate of 79 per cent whereas the rate is 63 per cent in Rochdale.

» For the **West Midlands** the challenge is overcoming a disastrous overall employment failure. The city region has lowest employment rate – at 64.4 per cent - of any city region by some distance and a full 10 per cent below the national average. Furthermore all local authorities in the region are below the national average and Birmingham has the lowest employment rate of any local authority.

» Employment rates for ethnic minorities are lowest in the **Tees Valley**. Only by addressing this can the region improve its overall employment rate (68.8 per cent) which is the third worst of all the city regions.

» **Sheffield** has a low pay problem. Hourly wages are lowest in Sheffield (£10.54) of all the city regions and around 1 in five workers will be on the minimum wage in the city by 2020.

» **Liverpool** has the second lowest overall employment rate. This is partly because the employment rate for disabled people in Liverpool is 36.4 per cent compared to 42 per cent across all the cities.

» The most successful city region – the **West of England** - needs to deal with the problems of success. A failure to build enough houses means that, aside from London, the region has experienced the fastest growth in house prices. Prices are up 33 per cent since April 2009, while wages have only increased by 6 per cent.

City-level employment rates are below the national average, with significant variation between and within areas

The living standards challenges facing Britain's major cities are numerous, this report however will focus on the labour market and employment. While employment is clearly only one driver of households' living standards it is particularly important component for a number of reasons.

In the recovery from the financial crisis Britain experienced a dramatic surge in employment. At present, the employment rate for those aged 16 to 64 is at an all-time high of 74.5 per cent. This increase has helped cushion the blow to living standards that the crisis caused. In particular it has benefited poorer workers who are more likely to lose their jobs during recessions than their better-paid peers. As a result rising employment since the depth of the crisis in 2011 has meant that incomes fell less for those at the bottom of the income distribution. In short, boosting employment is a more progressive way of boosting living standards.

Furthermore a tighter labour market helps to stimulate rising wages, and so while it is true that many of Britain's major cities have a low pay problem this is unlikely to be addressed in the absence of a strong labour market.

Yet despite the country's impressive employment performance this has not been shared equally. Many of Britain's city regions, areas within them and specific workers have failed to adequately benefit from rising employment. Liverpool and the West Midlands have seen small increases in employment since 2011 and they are also the cities with the lowest employment rates today. Furthermore, although the period since the financial crisis has been marked by significant employment growth (albeit for only some cities) it has also been marked by very little reduction in the disparities between local authorities within city regions – a key measure of how inclusive growth has been in a city region. This lack of inclusivity is concerning and devolution should provide the impetus to focus on this problem. While different cities

have signed different deals with central government, the devolution of parts of the employment support system has been a central feature across all cities. Therefore employment stands out as an issue both deserving of a focus from new local economic leadership and on which policy options are available.

Three key themes can be identified from our research:

» **In the vast majority of cities, employment is below the national average.** In the first quarter of 2016 (the most recent period for which data on city employment is available) all city regions except for the West of England had employment rates below the national average. Furthermore, only the West of England and Nottingham had lower unemployment rates than the national average.

» **Employment performance varies significantly across cities.** Of most concern is the West Midlands where the employment rate is 64.4 per cent - and as low as 39 per cent for some groups of workers. Furthermore the employment rate is low across the region, with only Solihull having an employment rate above 70 per cent. Even that relatively affluent part of the region still has an employment rate over 2 percentage points below the national average. Across all cities the standard deviation in the employment rate is 2.9 percentage points. That's the distance by which city regions differ on average from the mean city region level of employment.

» **However, disparities within city regions are greater than those between them.** Although some regions like the West of Midlands and the Tees Valley have low levels of employment across the entire region, on average city regions are marked by significant disparities. In Manchester Trafford has an employment rate of 79 per cent whereas the rate is 63 per cent in Rochdale. Other cities are also marked by significant disparities: Central Nottingham has an employment rate of 65 per cent whereas the rate is 80 per cent in Rushcliffe. On average the standard deviation in employment across local authorities in each city region is 3.8 percentage points, highlighting the extent to which differences *within* city regions are wider than those *between* cities on average.

While the great disparities that exist at the city region level are a cause for concern they also suggest that improvements are possible and can be achieved by local leaders. Furthermore, while within-city differences are

greater than those between cities on average, the situation varies in different city regions. This underlines how important it is that areas develop policy responses that reflect their local situation.

Big improvements in employment will only be possible if the employment rates of 'low activity' groups improve

Despite this variation within and between cities in terms of the overall employment rate, there is very little difference among 'higher performer' members of the population. For prime age (30-49 year old), highly-qualified, white, non-single parent and non-disabled adults, record employment rates that are consistently high across all parts of the country.

Instead, the variation in city-level employment is explained by the prevalence and performance of 'low activity' groups. Such groups are traditionally further away from the labour market, recording not just lower levels of employment but lower levels of economic participation too. They include younger adults, older people, the low-qualified, mothers, single parents, disabled people, and black, Asian and minority ethnic (BAME) people.

Areas with higher numbers of 'low activity' adults are likely to record lower levels of employment, but it is also worth noting that these groups record very different performances across localities. For example the employment rate for disabled workers is 36 per cent in the Liverpool region, but 52 per cent in the West of England. That similar people achieve such different outcomes in different parts of the country is a cause for concern. However, similar workers also achieve different outcomes within city regions. The employment rate for BAME workers in Haringey is 59 per cent compared to 76 per cent in Havering.

Raising 'low activity' employment rates in the worst performing parts of the country could bring up to three-quarters of a million new workers into the labour market

The implication of the bigger variation within cities rather than across them is that the pay-off for closing *intra*-regional gaps in employment is greater than the pay-off for closing *inter*-regional gaps. However, some cities would benefit more from addressing inter-regional disparities in line with the point that cities need to pursue different strategies.

We can provide some sense of the scale of potential improvement by undertaking a relatively simple thought experiment: how would overall employment rates improve if we were lift rates among 'low activity' groups to those in place in the best-performing parts of the country?

Specifically, we consider two scenarios. In the first we lift city-level 'low activity' employment rates to the levels recorded in the best performing city region (the West of England); in the second we lift 'low activity' employment rates in local authorities to those recorded in the best performing authority within the given city region.[4]

Closing the intra-regional differences would lift 746,000 more people into work and raise the average employment rate across cities by 4.3 percentage points. Alternatively, closing the inter-regional differences would result in 572,000 more people in work and a 3.3 percentage point increase in the city level employment rate. These are both big boosts to employment and living standards.

However, different cities and groups would benefit from different strategies. For example, while the characterisation above holds for Manchester – that is, employment would be boosted more by lifting rates among 'low activity' workers across the city to those recorded in the top performing local authority of Stockport – the opposite is true in Tees Valley. Here, the overall gain from raising employment rates among 'low activity' groups to the averages recorded in the West of England is larger.

Similarly, BAME workers would benefit more from the closing of *intra*-regional employment gaps across the country, while low-qualified workers would gain more from addressing *inter*-regional disparities.

These differences matter because they help to inform the questions that mayors in the new city regions might ponder. For example how much does the location of growth within city regions matter? Should policy focus on specific areas or specific groups? Should there be a stronger focus on infra-structure or on skills? Is higher employment a product of demand or supply? Of course, given the choice policy makers would undoubtedly want to act on all these issues and improve both inter- and intra-city employment performance, but they will inevitably face compromises, trade-offs and the need for prioritisation.

[4] For full details of the modelling see Annex 2.

We set out specific policies to support 'low activity' workers in our work on full employment earlier this year, and these recommendations remain key. But there are specific city-level dimensions to the employment challenge too. Local policy-makers need to be aware of how different groups perform in their local area. We plan further work on specific cities that will provide an insight into this, but it is already clear that some groups will benefit more from addressing intra-regional than inter-regional disparities, or vice versa.

Section 1

Introduction

Significant devolution is planned for Britain's major city regions

Devolution in the UK has ebbed and flowed for decades and another distinct phase began under the Coalition Government. The Regional Development Agencies, set up by the previous Labour administration, were abolished and the Coalition introduced city-specific policy through the Growth Deals and City Deals. These were the precursors to the current city region devolution deals. The first of these city deals were signed with the eight largest cities outside of London and then further deals were signed with the next fourteen largest cities and their wider areas. Deals were also signed with the six cities with the highest population growth during 2001 to 2010.[5]

Towards the end of the last parliament and under the new Conservative government the focus moved to a more substantive attempt to devolve further powers through devolution deals with specific city regions. The local authorities in a region were expected to form a 'combined authority', coming together to make decisions for the whole area where they had not already done so. Local Enterprise Partnerships are also expected to be partners with the authority. In return the city region would receive greater powers but would also have to agree to have an elected mayor. To date ten devolution deals have been signed. These cover mostly large city regions, but also East Anglia,[6] Greater Lincolnshire and Cornwall.[7]

The plan was for any area which signed a devolution agreement (Cornwall aside) to agree to and elect a mayor in May 2017. At present elections will go ahead in Manchester, Liverpool, Tees Valley and the West Midlands, with votes also likely in Sheffield and the West of England. However some areas will not elect a mayor, or at least not yet. In some cases there is resistance to creating an elected local mayor - this issue is partly responsible for preventing the West Yorkshire combined authority from ratifying a deal for example. In Yorkshire there are also disagreements about the optimum area over which the new combined authority and mayor should have jurisdiction with differing views about which parts of North, West and East Yorkshire should come together. Similar geographical issues have affected other devolution deals. In Nottinghamshire and Derbyshire the possibility of some local authorities joining the Sheffield combined authority and devolution deal has played a part in preventing a broader Derbyshire and Nottinghamshire (D2N2) combined authority moving forwards. Recently local authorities in the North East also rejected plans for a mayor, and there is a suggestion that a deal that doesn't involve an elected mayor will be signed by a smaller group of local authorities in the area. [8]

[5] Devolution to London has not significantly developed since 2010, instead the focus has been on offering other areas similar, and in some cases different, powers to the capital.

[6] The deal for the whole of East Anglia has collapsed and it is now likely to be replaced by two separate deals, one for Cambridgeshire and Peterborough and one for Norfolk and Suffolk.

[7] The devolution deal with Cornwall is the only one that did not require more than one local authority to join together in a combined authority. Cornwall's deal was signed with just Cornwall County Council and Cornwall and Isles of Scilly Local Enterprise Partnership. There is also no requirement for Cornwall to have an elected mayor.

[8] ITV News, "3 North East councils broker devolution deal", 26 September 2016

Before the vote to leave the EU such issues were holding up devolution in some areas. While there is no concrete evidence that the new Government is less committed to elected mayors than the previous administration there is some suggestion that the new Prime Minister appears less wedded to the idea. The new government has said that it wants "clear accountability including mayors" which would be decided on a "case-by-case basis" with regions able to have "what works for them".[9] At present there is no indication that the requirement on those areas that have already signed devolution agreements to have mayors has been dropped, although there have been suggestions that in some cases devolution may not require a mayor. Only time will tell whether elected mayors will be continue to be mandatory for further devolution.

Whether or not city regions are required to have an elected mayor or not, significant powers have, or will soon be, devolved to many of Britain's major cities (see Box 1). Such deals give mayors and combined authorities more powers to improve the lives of the population and the ability to tailor policies better to suit local needs. This is welcome because the evidence is that Britain's cities face some very significant challenges that can only be tackled through strategic economic leadership.

i Box 1: Devolved powers

The government has made it clear that what is devolved to one area will not necessarily be devolved to others. This 'bespoke' approach to devolution means that each local area signs a separate (often more than one) devolution deal with central government. Nevertheless there are certain responsibilities and policy areas that the government has been willing to devolve. Furthermore, different local areas take note of what others are requesting. The result is that devolution is occurring similarly across areas, with central government planning to pass some powers to local governments in the following areas:

- Transport;
- Adult skills;
- Employment;
- Economic development;
- Health & Social Care;
- Fire;
- Planning/housing;
- Children; and
- Criminal Justice.

In some of these areas local government already has responsibilities, for example over planning, and significant parts of housing and children policy. In this respect devolution provides an opportunity for these policies to be decided at the city region level, rather than at a more local level. In other areas devolution signals a willingness of central government to work with local governments. In such cases power is not being given to local government, but shared with them.

Yet in some instances powers are being handed to local government and the exact powers being devolved are relatively specific and can vary by area. In adult skills for instance the majority of devolution deals include the devolution of the budget, but only some provide some (limited) influence for local government over how the apprenticeship levy is spent. In terms of employment, which is the focus of this report, the majority of city regions will receive powers that will allow them to offer tailored support to help out-of-work residents find employment. In some cases this involves control over specifically tailored work schemes (such as the Working Well programme in Greater Manchester). Some areas will also have the opportunity to work with the Department for Work and Pensions in designing and possibly commissioning the soon-to-be introduced Work and Health Programme.

[9] Financial Times, "Elected mayors to be on a 'case-by-case basis'", 22 August 2016

This paper marks the first in the Resolution Foundation's wider assessment of living standards across Britain's cities. The project will build upon previous work on city regions[10] and explore the issues above.

We look primarily at twelve city regions: London, the city regions of the eight 'Core Cities' in England,[11] the Tees Valley city region which has signed a devolution deal with the government and is on course to elect a mayor in 2017, and the biggest cities in Scotland (Glasgow) and Wales (Cardiff). Devolution is occurring to differing degrees and on differing time-scales across these regions and, given the wider uncertainty surrounding devolution, the boundaries of some city regions are still under debate and may change in future. The exact local authorities included in these city regions are provided in Annex 1.

The remainder of this paper is set out as follows:

- Section 2 looks at the living standards challenges facing Britain's major cities.
- Section 3 covers the variation in employment rates within and between cities.
- In Section 4 we look at labour market activity between and within low activity groups.
- Section 5 sets out some conclusions.

We provide details of data and definitions in Annex 1 and further information on how we calculate the growth in employment under our two scenarios in Annex 2.

[10] See A Corlett, *Paved with gold: Low pay and the National Living Wage in Britain's cities*, Resolution Foundation, January 2016

[11] Liverpool, Manchester, North East, Nottingham, Sheffield, West of England, West Midlands and West Yorkshire.

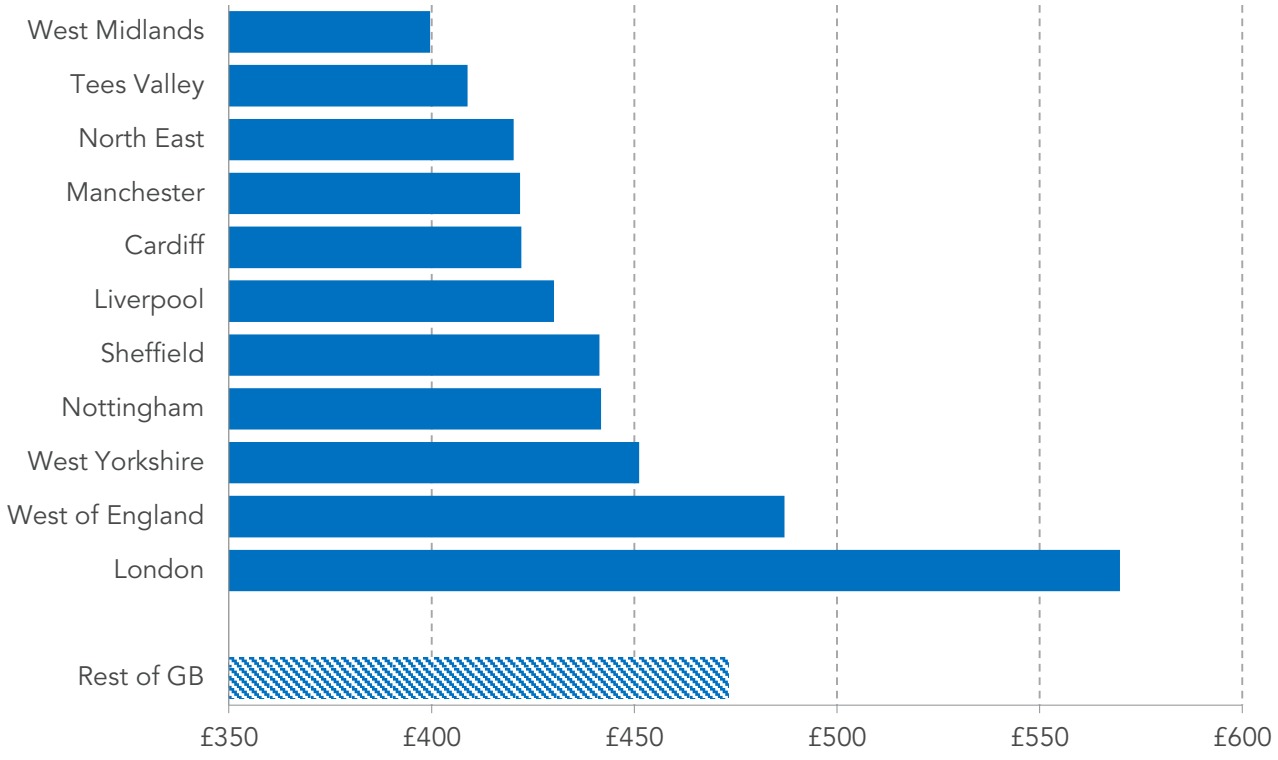
Section 2

The living standards challenge facing Britain's cities

Living standards are a function of many things; the wages people earn, the benefits they receive, the taxes they pay, whether they have a job and how much things cost. In general living standards in Britain's cities are lower than in the rest of the country. Figure 1 shows that on a fundamental determinant of living standards – income – Britain's major city regions lag behind.

Figure 1: Average household income in Britain's major city regions: 2011/12

Equivalised net weekly household income after housing costs (AHC) for Britain's city regions



Notes: Results are produced using a population-weighted average of the equivalised net weekly household income of the local authorities that make up each of the twelve city regions. 2011/12 is the latest available income data for small areas.

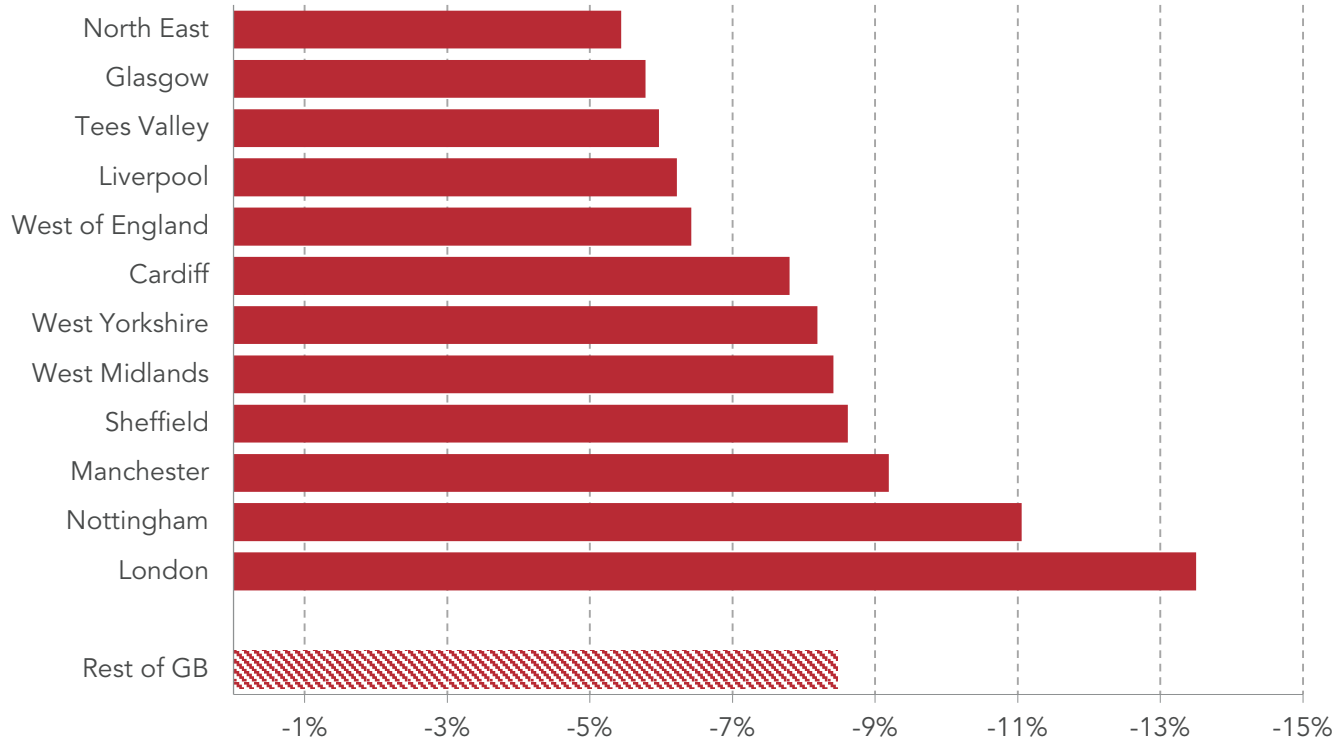
Source: RF analysis of ONS, *Small area income estimates 2011/12*

Over the course of the 21st century there has been a growing divergence between productivity and pay at the national level. This has meant that improvements in output per hour have not translated into similar improvements in people's pay, suggesting that economic growth has not been fully

reflected in wages for typical workers. This trend has continued to hold since the financial crisis in 2008, but workers have been hit by the double whammy of stagnating productivity and falling wages. That is, output per hour has flat-lined and wages have performed even less well – falling in real-terms. Figure 2 shows how pay has fallen across Britain's major city regions.

Figure 2: Pay squeeze by city: 2009 – 2015

Change in gross hourly earnings (resident based)



Notes: Pay is based on where people live rather than where they work. Although the vast majority of people living and work in the same city region

Source: RF Analysis of ONS, *Annual Survey of Hours and Earnings*

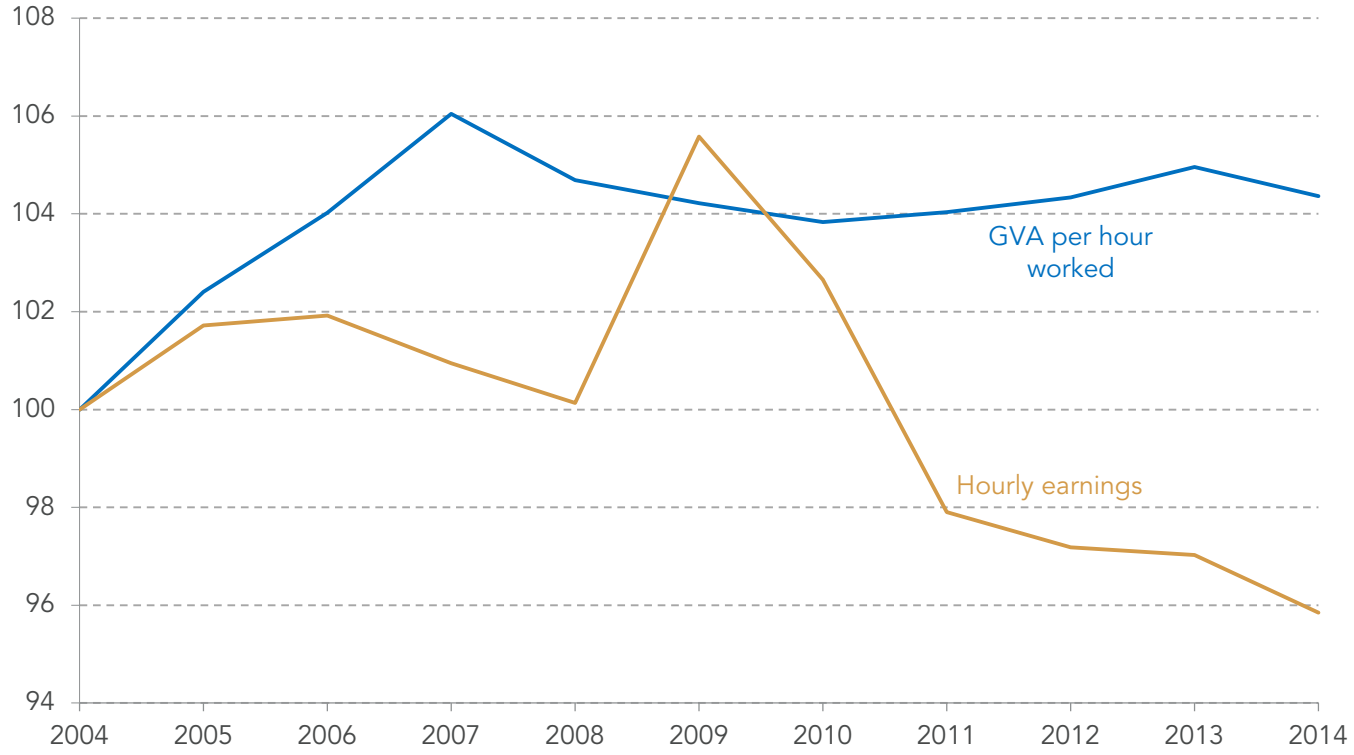
The divergence between productivity and pay is also apparent across Britain's cities. While the precise movements of productivity and pay have differed somewhat across different areas, taking all of the major cities together Figure 3 shows that both productivity (as measured by Gross Value Added per hour worked) and pay have disappointed in recent years.[12] Productivity in 2014 was just 4 per cent higher than it was in 2004, and real pay was more than 4 per cent down. Furthermore, productivity is lower in the majority of Britain's major cities than in the rest of the country. [13] Boosting productivity is vital because it tends to feed through into wages, although city mayors need to be aware that this is not always the case.

[12] The one exception is 2009, when pay spiked as a result of a temporary period of negative RPIJ inflation associated with sharp cuts in the Bank of England's base rate. Note, 2004 is the earliest year for which we have data on GVA per hour worked for Britain's city regions.do you need this last sentence?

[13] Only in London and the West of England region is productivity, as measured by GVA per hour worked, higher than in the rest of Great Britain. See ONS, *Labour Productivity*, 2016

Figure 3: Productivity and pay in Britain's major cities: 2004-2014

GVA per hour worked (GVA deflator) and median hourly earnings (RPIJ deflator) in city regions (2004 = 100)



Notes: Earnings data relates to location of workplace, not residence

Source: RF Analysis of ONS, *Annual Survey of Hours and Earnings* & ONS, *Sub-regional productivity*

Relatively meagre productivity growth and falling real earnings have meant that the share of workers who are low paid[14] is relatively high in the UK compared to other developed countries.[15] To address this, the government introduced a 'National Living Wage' (NLW) earlier this year. This represents an increase in the wage floor for those aged 25 and over, and is planned to be worth 60 per cent of median pay of this 25-plus age group by 2020.

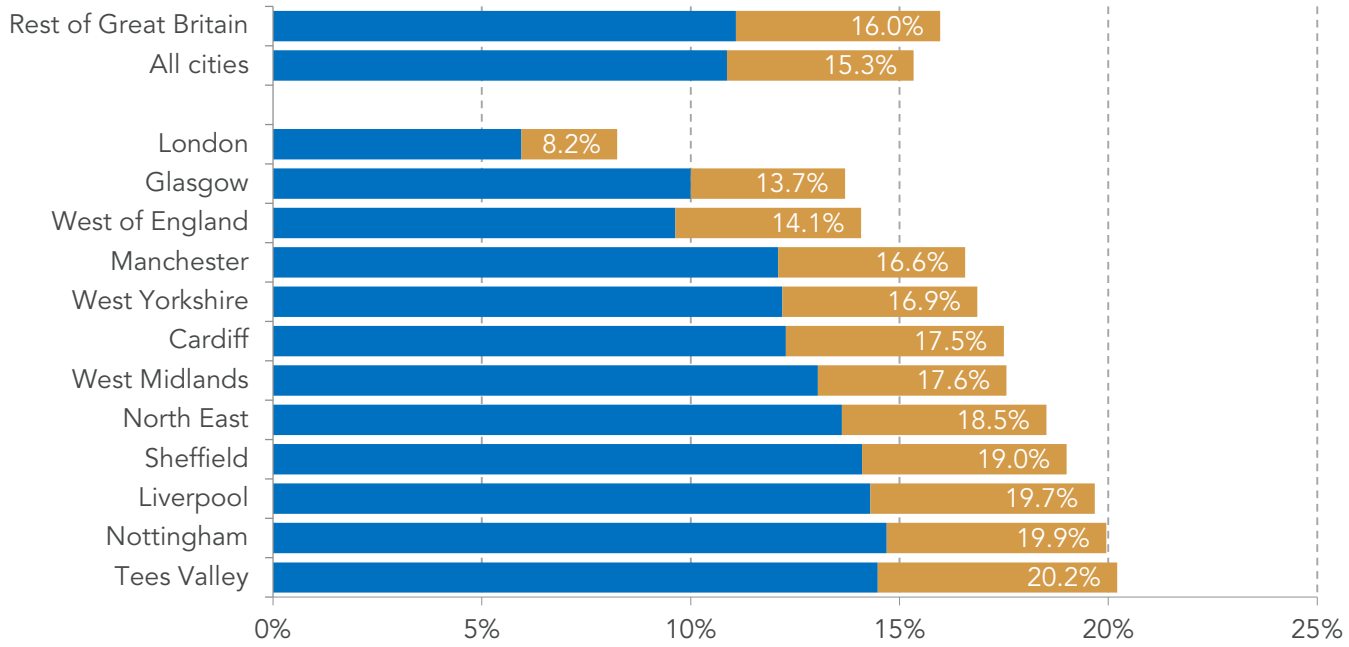
Inevitably, many of the beneficiaries of this will be workers in Britain's major cities. Indeed, because pay is below the national average in many of Britain's cities, we can expect several of these regions to benefit disproportionately from the move (London being the major exception). Figure 4 highlights this, showing the share of workers in each city region expected to benefit from the NLW uplift in 2016 and 2020. It shows that roughly one-in-five employees are expected to gain as a result of the NLW by 2020 in Tees Valley, Nottingham and Liverpool, compared to an average outside of the major cities of just under one-in-six employees. This is welcome news, but it will mean more workers on the wage floor than ever before. Ensuring that more employees can raise their wages by progressing in work will be a key task of the new mayors.

[14] Defined as those that earn less than two-thirds the median wage.

[15] See S Clarke & C D'Arcy, *Low Pay Britain 2016*, Resolution Foundation, October 2016

Figure 4: The effect of the NLW for employees in Britain's cities

Share of employees (%) affected by the NLW in 2016 & 2020



Notes: To calculate the number and proportion of employees 'on' the National Minimum Wage (and National Living Wage)[14] we capture employees earning up to 1 per cent above their age-specific NMW/NLW rate (i.e. this measure includes those earning below the NMW due to non-compliance). Using data from ASHE 2015 cast forward to 2016 and 2020, we identify the values that are 55 and 60 per cent of median earnings of those aged 25 and over in the 2015 ASHE data on individual earnings. As well as direct effects on employees whose pay is below the new minimum, we incorporate indirect or 'spillover' effects, where wage increases ripple higher up the wage distribution. These are modelled on the basis of the latest academic literature on their size and incidence in the UK. The resulting estimates of the number of people in low pay are uprated to 2016 and 2020 using OBR projections for employment growth.

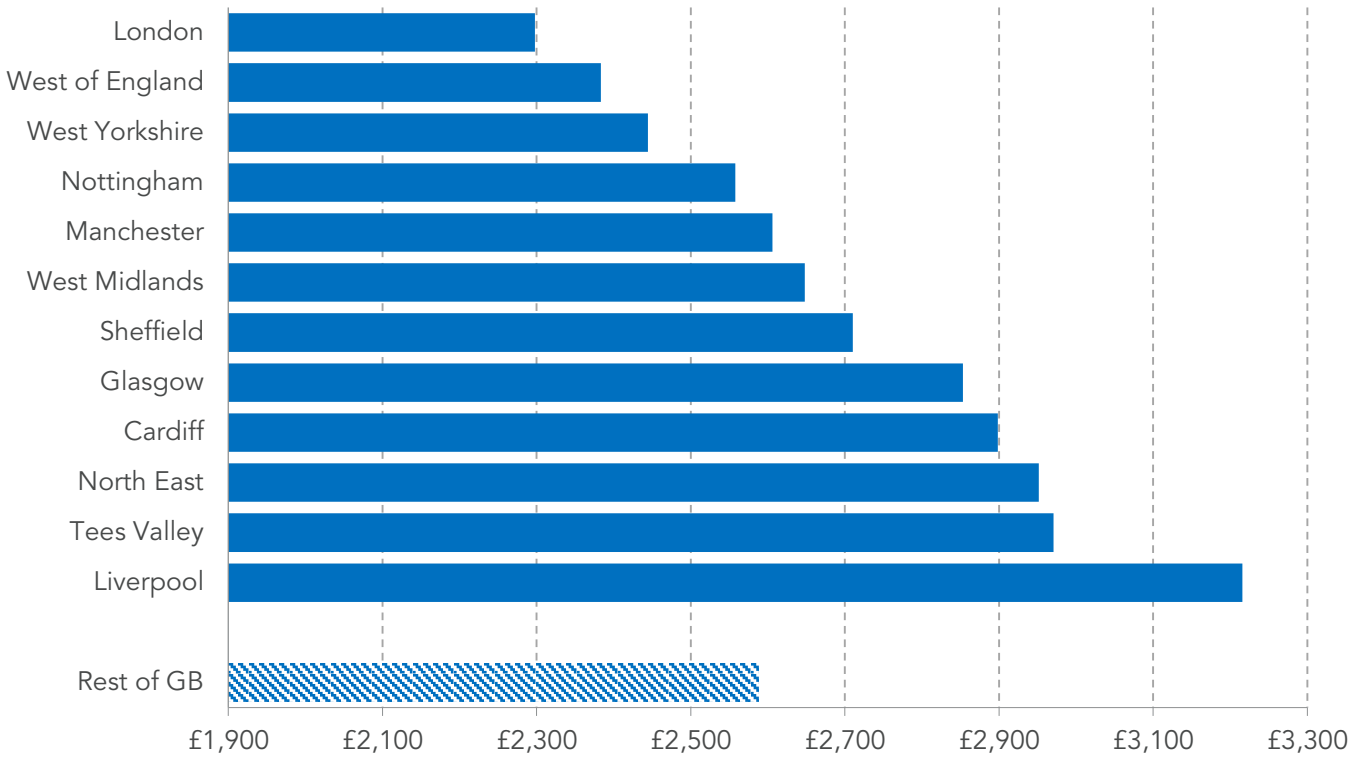
Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*

As well as earnings, another key source of income for many households – particularly those in the bottom half of the income distribution – is state support. Using data on benefit spending published by the DWP, it is apparent that spending per head of population is higher in the majority of city regions than it is in the rest of Great Britain. Figure 5 shows that, aside from Nottingham, West Yorkshire, the West of England and London, city regions receive more in benefits than the rest of Great Britain. Spending in city regions is even higher relative to the rest of the UK for working-age benefits.

[16] The NLW applies to workers who are 25 and over, younger workers are covered by their age-specific NMW

Figure 5: Benefit spending across city regions: 2015/16

Benefit expenditure per head of population (£, nominal terms)



Notes: Benefits include: Attendance Allowance, Bereavement Benefit/Widow's Benefit, Carer's Allowance, Disability Living Allowance, Discretionary Housing Payments, Employment and Support Allowance, Housing Benefit, Incapacity Benefit, Income Support, Jobseeker's Allowance, Pension Credit, Personal Independence Payment, Severe Disablement Allowance, State Pension, Winter Fuel Payments

Sources: RF analysis of DWP, *Benefit expenditure and caseload tables 2016*

While this may mean that people in these cities disproportionately benefit from public spending it also means that they may be harder hit by the planned reductions in benefits. There is evidence that this is the case. Christina Beatty and Steve Fothergill have estimated the impact that welfare reforms carried out between 2010 and 2015 and those planned between 2015 and 2020-21 will have on the working age population of each local authority in Great Britain. Analysis of their data suggests that, aside from the West of England, the eleven city regions above will experience an average loss per working age adult of around £790. This is £170, or around 30 per cent, more than the loss that they predict working age adults in the rest of Great Britain will face.[17]

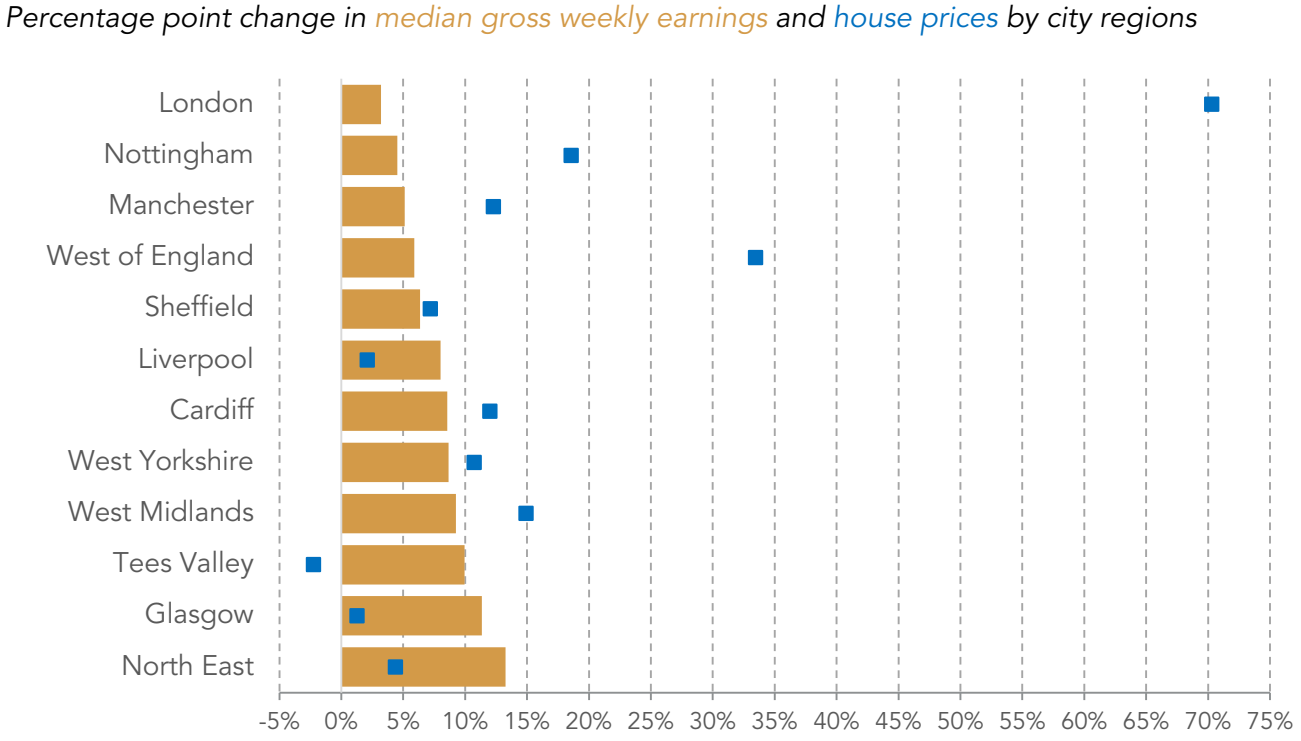
As well as income, people's living standards are affected by what things cost. For most families, housing forms a relatively large part of their regular expenditure and previous work suggests that across the country the share of income spent on housing has been rising over time.[18] While sufficient data at the city region level is not available to monitor trends on this affordability measure, we can get some sense of what is going on with housing affordability by looking instead at the house price to earnings ratio in different areas. The picture since 2009 (when real earnings last peaked) is that house prices have grown faster than earnings in the majority of city regions, as shown in Figure 6. This divergence has been most marked in London and the West of England,

[17] The West of England region is predicted to see a loss of £585, £35 less than the rest of Great Britain. Based on analysis of C Beatty & S Fothergill, *The uneven impact of welfare reform: The financial losses to places and people*, Sheffield Hallam University Centre for Regional Economic and Social Research, March 2016

[18] S Clarke, A Corlett and L Judge, *The housing headwind: the impact of rising housing costs on UK living standards*, Resolution Foundation, June 2016

but it suggests that housing costs are likely to have dragged on living standards across most – if not all – of the regions we focus on.

Figure 6: Change in earnings and house prices across city regions: April 2009 – April 2015



Source: RF Analysis of ONS, ASHE and Land Registry, *UK House Price Index*

Whether or not one, or one's family, is in work is another vitally important determinant of living standards. Furthermore boosting employment is a progressive way to improve living standards because it is those lower down the income distribution that tend to move into work. With city regions gaining increased powers over employment support, the labour market performance of Britain's major city regions will form the focus of the rest of this report.

Section 3

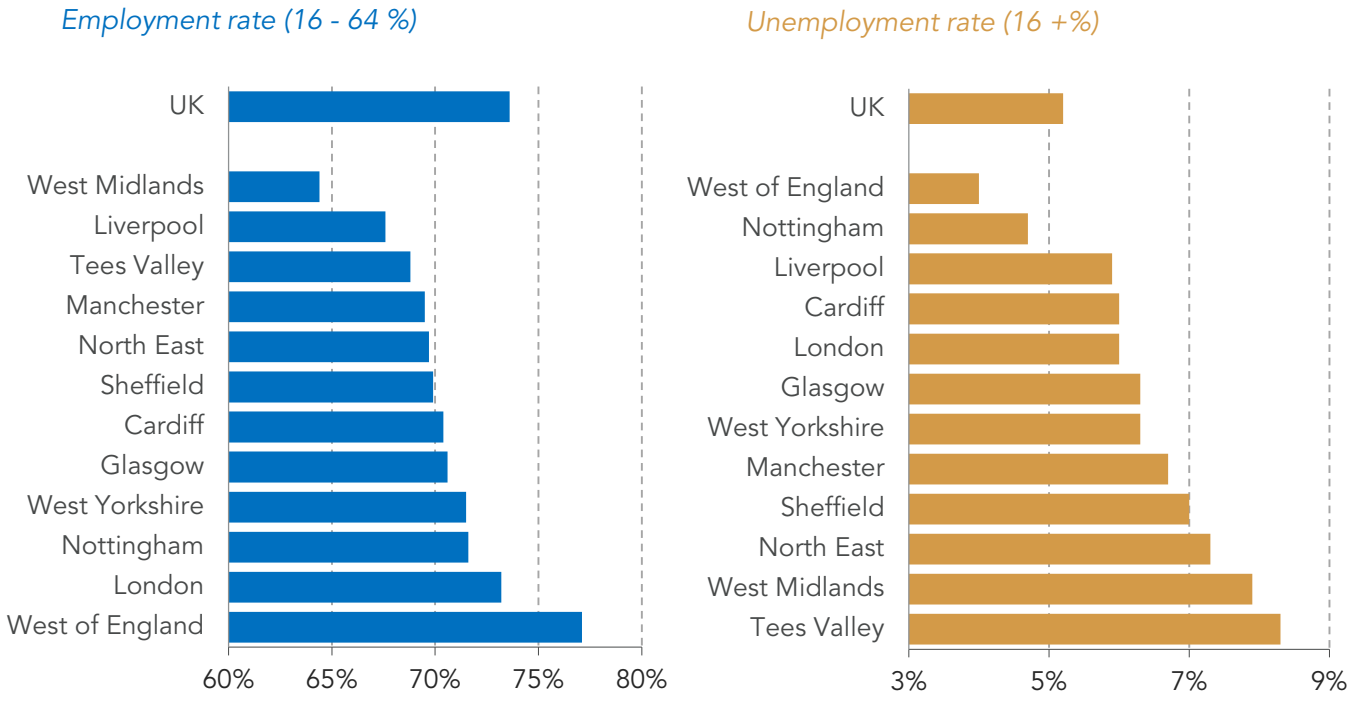
Employment variation between and within cities

Levels of employment and unemployment differ across Britain's major cities, though most are below the national average

There is clearly appetite in central government to allow areas control and influence over employment policy (and other areas that can influence the opportunities people have to find work such as health and social care, skills, economic development and transport). This, and the fact that boosting employment has a big impact on the living standards of the less well-off, means that it is critical that the performance of labour markets across Britain's major cities is well-understood.

Despite the fact that the majority of jobs are based in Britain's cities Figure 7 shows that the employment and unemployment rates of Britain's major city regions compare poorly with the UK average. Only one city region, the West of England (which contains Bristol and Bath), has a higher employment rate than the national average. Similarly, only the West of England and Nottingham have lower unemployment rates.

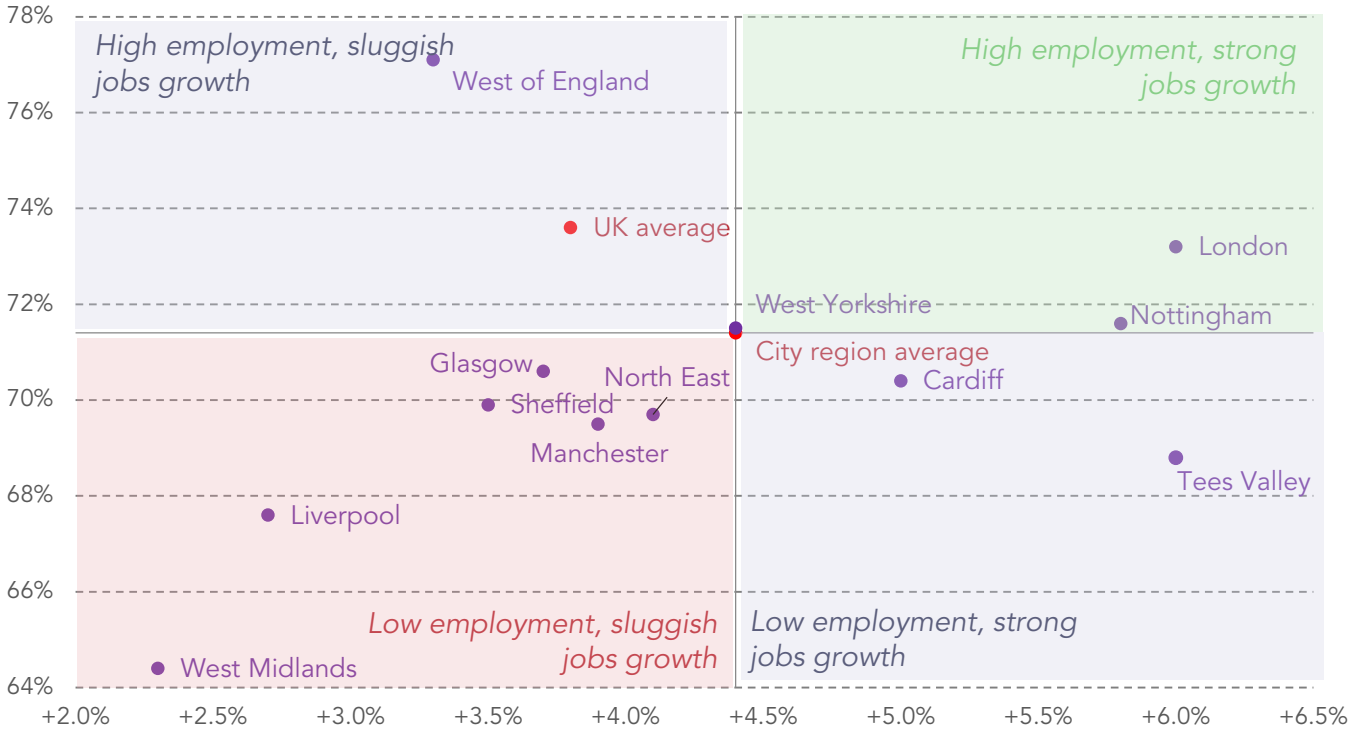
Figure 7: Employment and unemployment across city regions: Q1 2016



Sources: RF analysis of ONS, *Annual Population Survey/Labour Force Survey*

As well as underperforming relative to the national average there are also clear divergences *between* cities. This is true in terms of the current employment rate and also performance since the financial crisis. Figure 8 compares current employment rates with changes since the August 2011 trough.

Figure 8: The evolution of employment across city regions since the financial crisis



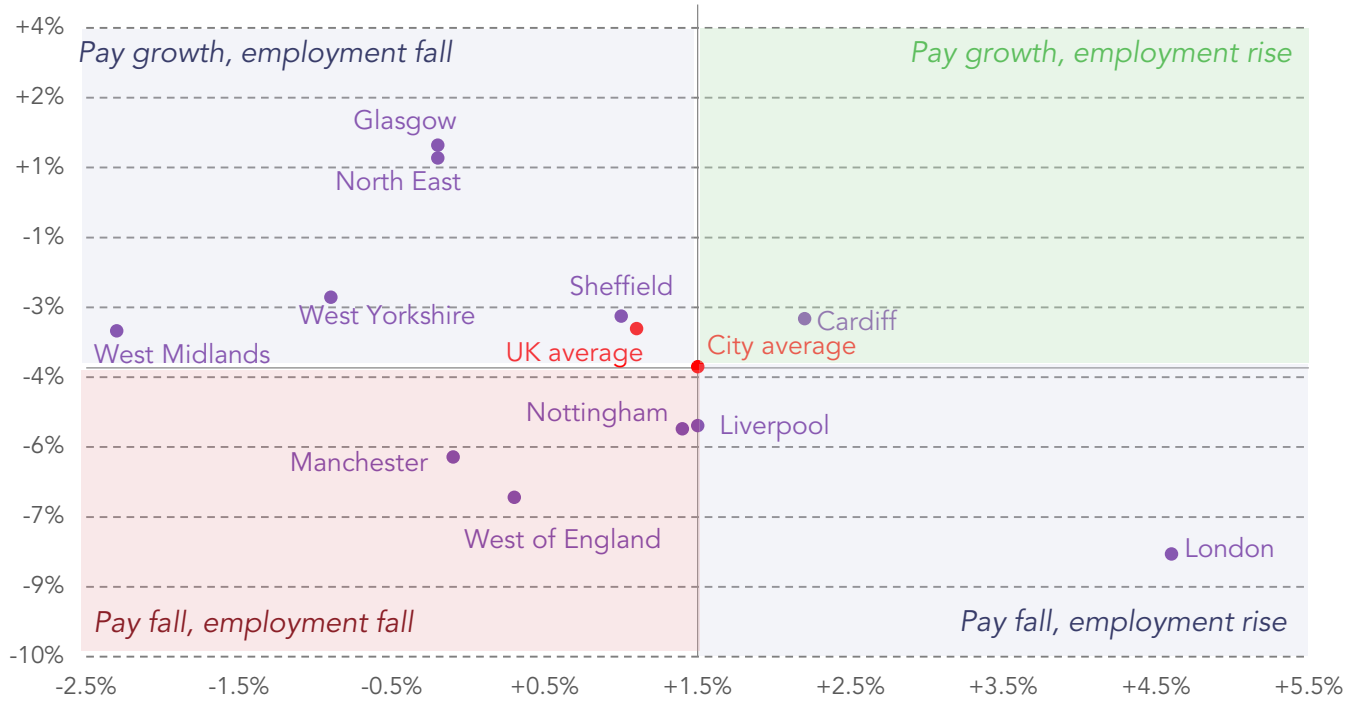
Sources: RF analysis of ONS, *Annual Population Survey /Labour Force Survey*

Taking all the city regions together, we see that they have performed better than the UK average in the last five years – albeit from a lower starting point. That strong performance has been driven in particular by London, Nottingham, Cardiff and the Tees Valley (with the first two building on relatively strong employment baselines and the latter two growing from below average positions). In contrast, employment performance since 2011 has been relatively weak in the West Midlands, Liverpool and Glasgow (all from relatively low starting points) and in the West of England (from an above average baseline). This emphasizes the fact that despite the country as a whole seeing large employment gains since 2011, some cities missed out on this. Many of these, particularly Liverpool and the West Midlands, had already low levels of employment meaning that they have fallen even further behind.

However, while some regions have experienced relatively poor employment growth, they have seen stronger earnings growth. Figure 9 shows that Glasgow has performed strongly on pay, and poorly on employment, while London has performed well on employment and poor on pay, suggesting that there may be a trade-off between the two.

Figure 9: The evolution of pay and employment across city regions

Proportional change in real-term full-time median hourly pay & percentage point change in employment rates in core cities: 2007-2015



Sources: RF analysis of ONS, *Annual Population Survey/Labour Force Survey* and ONS, *Annual Survey of Hours and Earnings*

While the picture is very mixed, it does at least indicate that there are opportunities for city regions to catch up to their peers. In Section 4 we forecast what improvements may be possible.

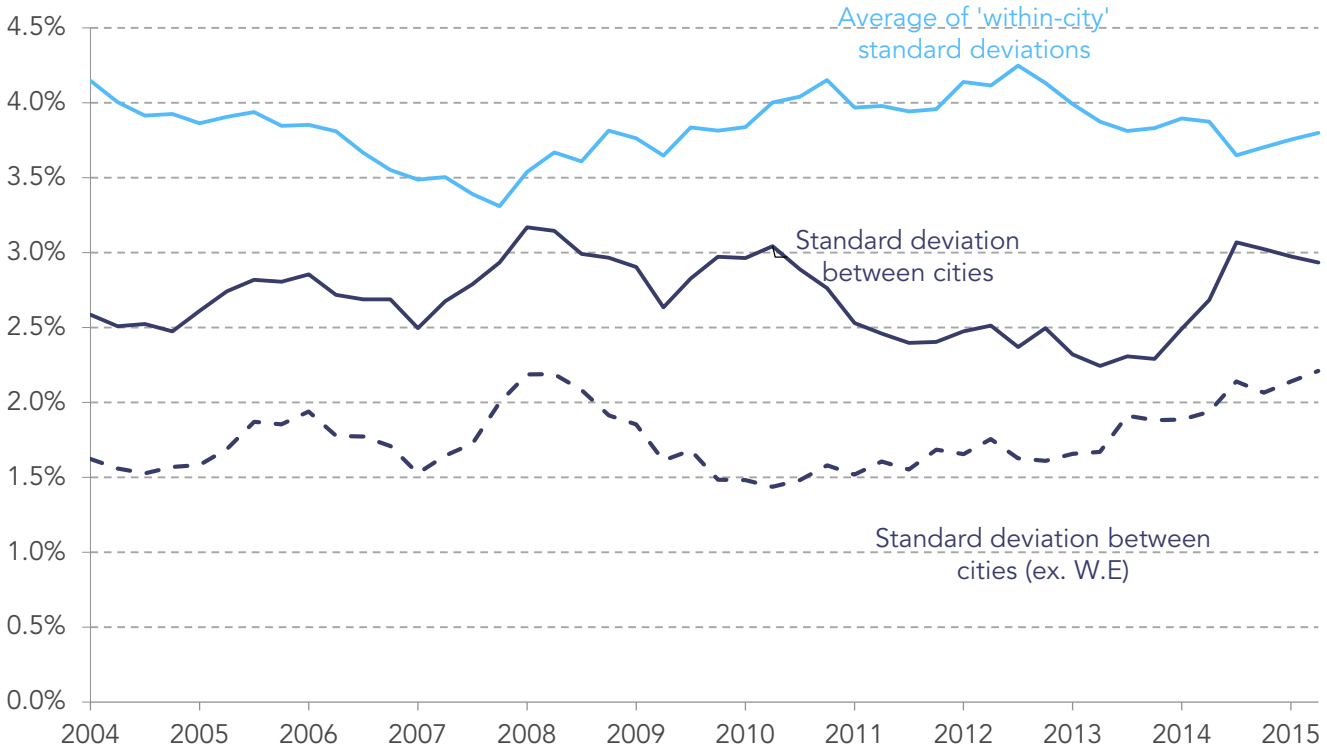
Employment rates differ more within major cities than between them

While there is significant variation in the employment rates of different city regions, there is also significant variation *within* city regions. Indeed, generally speaking there is *more* variation within cities than between them.

One way of compare 'between' and 'within' city differences is to look at the standard deviation of employment rates. It is a measure of the variance of all regions from the mean. Figure 10 compares the standard deviation of the employment rates of the city regions (*between*-city region variance) with the average of the standard deviations of the employment rates of local authorities within each city region (*within*-city region variance).

Figure 10: Standard deviations within and between city regions

Standard deviation of employment rates (16 - 64) (percentage points) across local authorities and between city-regions



Notes: The standard deviation is found by taking the square root of the average of the squared deviations of the values from their average value. It provides a measure of the amount of variation or dispersion of a set of data values using all values in the set.

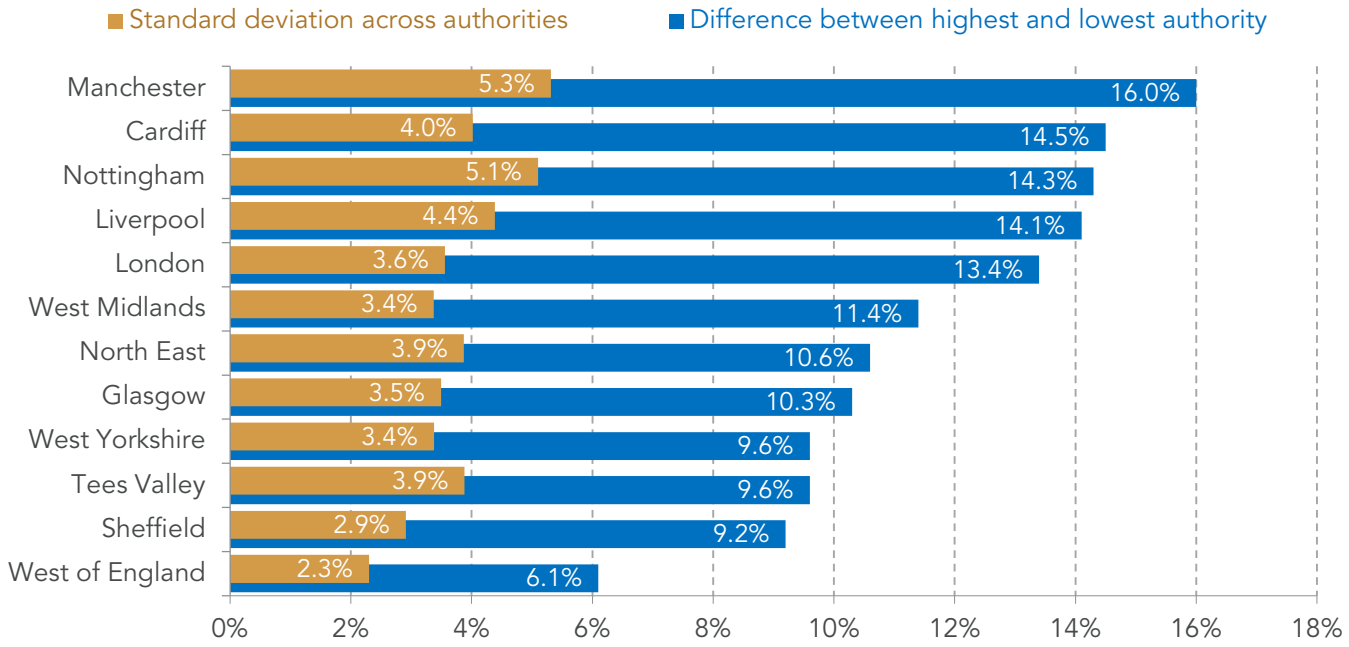
Sources: RF analysis of ONS, *Annual Population Survey/Labour Force Survey*

It presents a relatively consistent picture over time. The standard deviation between cities hovers between 2.5 percentage points and 3 percentage points in the entire post-2004 period. In contrast, the within city standard deviation fluctuates between roughly 3.5 percentage points and 4 percentage points – that is, around 1 percentage point higher in the main. Moreover, this gap grows significantly wider if we instead focus on the between city standard deviation excluding the West of England (which is something of an outlier on employment).

Yet, while it is true that differences tend to be larger within cities than across them, it should be noted that the level of variation within areas differs quite substantially from city to city. Figure 11 shows that differences between the employment rates of the best and worst performing authorities across the twelve city regions ranges from 6.1 percentage points in the West of England (between 81 per cent in South Gloucester and 74.9 per cent in Bristol) to 16 percentage points in Manchester (between 79 per cent in Trafford and 63 per cent in Rochdale).

Figure 11: Employment differences within city regions: February 2016

Difference between the employment rate of the best and worst performing local authority & standard deviation of the employment rate (16-64) (percentage points) within each city region



Notes: The standard deviation is found by taking the square root of the average of the squared deviations of the values from their average value. It provides a measure of the amount of variation or dispersion of a set of data values using all values in the set.

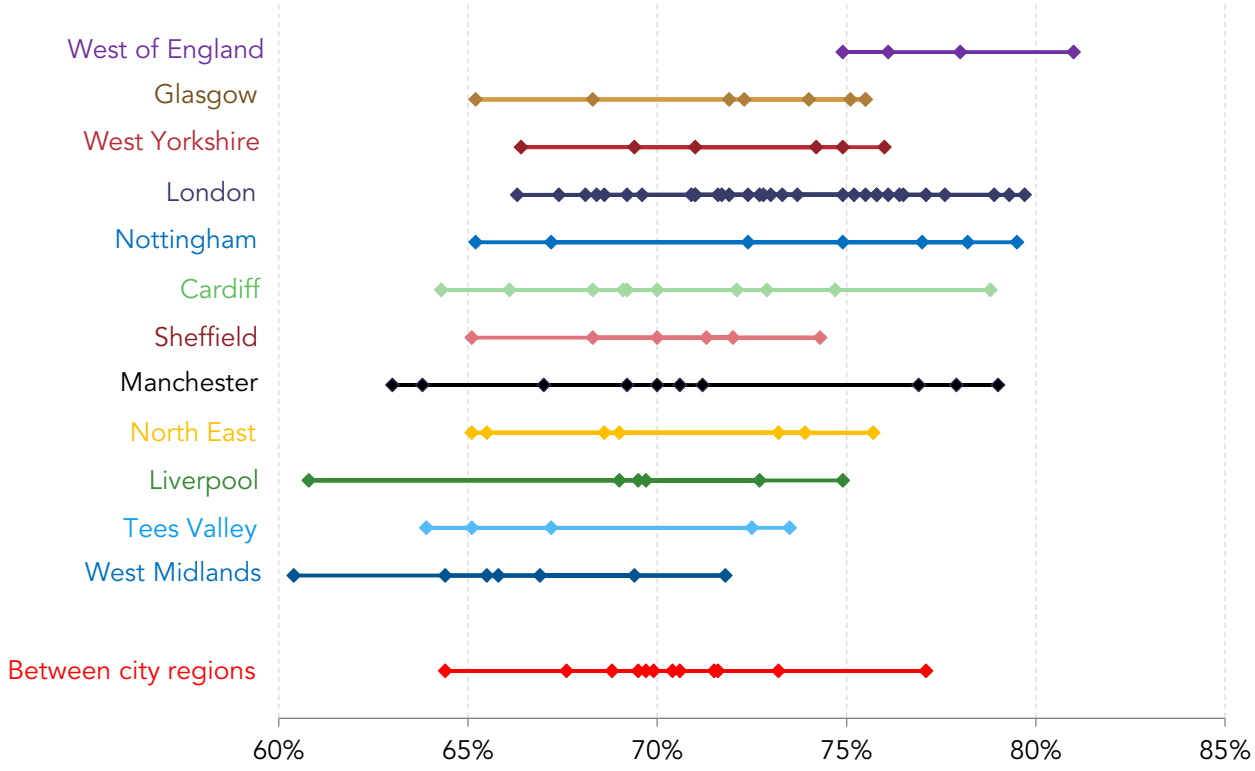
Sources: RF analysis of ONS, *Annual Population Survey/Labour Force Survey*

The fact that the standard deviation bars (in gold) in Figure 11 follow broadly the same pattern as the best/worst divide bars (in blue) suggest that the differences we see are not being driven by one or two outliers in any of the regions. Rather, the areas with the biggest gaps between their best and worst performing local authorities appear to have more broadly spread experiences around the mean more generally.

This spread is more clearly visible in Figure 12. Liverpool and the West Midlands stand out as having a single local authority with significantly lower employment than the others in their regions (Liverpool City in Liverpool and Birmingham in the West Midlands). But otherwise we observe relatively even spreads between the best and worst performing regions. Moreover in the majority of regions the difference between the best and worst performing local authority is over 10 percentage points.

Figure 12: Local authorities within city regions: February 2016

Employment rate (16 - 64) for local authorities within city regions



Sources: RF analysis of ONS, *Annual Population Survey/Labour Force Survey*

Figure 12 suggests that big improvements in living standards could be acheived by moving the worst performing authorities closer to the average for their city region. It also reinforces the point that within city differences in employment are greater than between city differences, particularly if the West of England and the West Midlands are excluded.

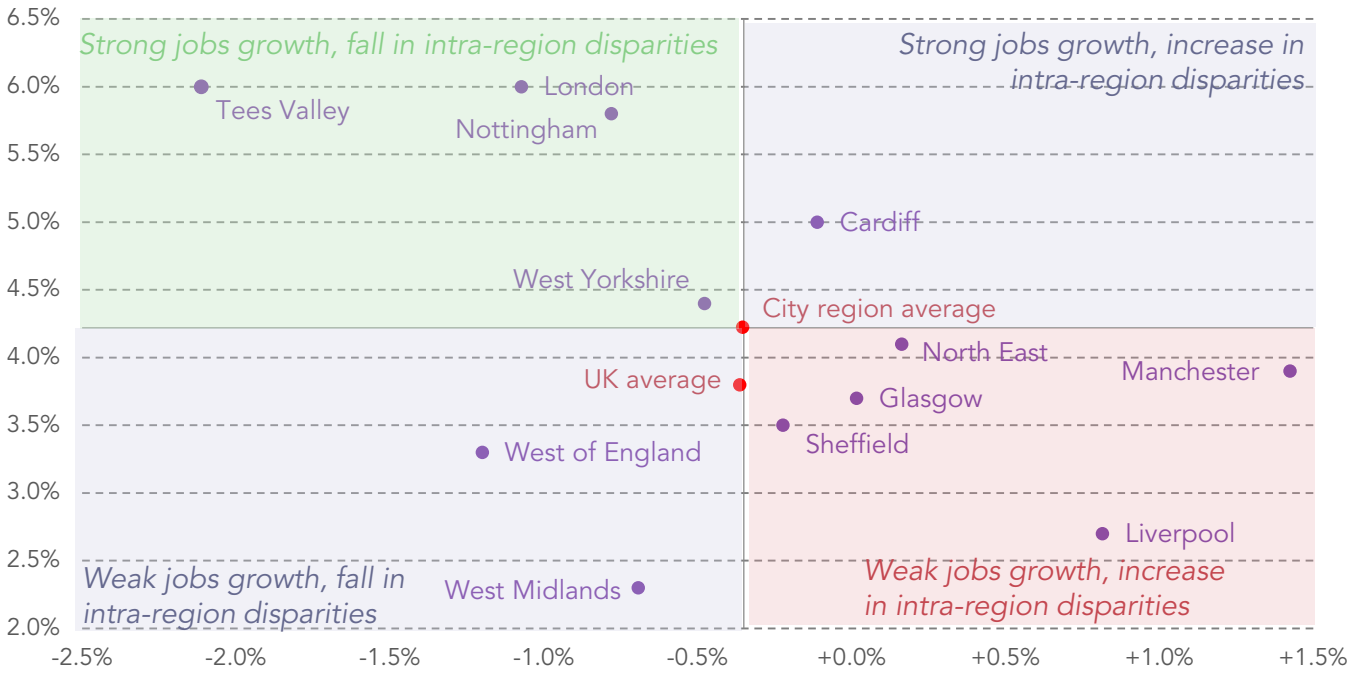
Some city regions have raised employment rates and become more inclusive, but overall disparities remain difficult to shift

In general differences in employment rates between and within cities have endured over time. However, some cities have raised overall employment and narrowed the gaps between local authorities. Figure 13 shows how employment rates, and variation across local authorities within city regions, have changed since August 2011. This period was one in which all city regions recorded relatively large rises in their employment rates as areas bounced back from the fall in employment during the financial crisis.

Tees Valley stands out for both significantly increasing its employment rate (though at 68.8 per cent it is still well below the city region and UK average) while simultaneously reducing the disparities between local authorities in the region. Along with London and Nottingham, Tees Valley's performance shows what inclusive employment growth looks like. Others have performed relatively poorly: job growth in the North East and Manchester has been marginally worse than the city region average and disparities between local authorities in the regions have increased.

Figure 13: The evolution of employment between and within city regions: August 2011 – February 2016

Percentage point changes in city region employment rates and changes in standard deviations of employment within city regions



Sources: RF analysis of ONS, *Annual Population Survey/ Labour Force Survey*

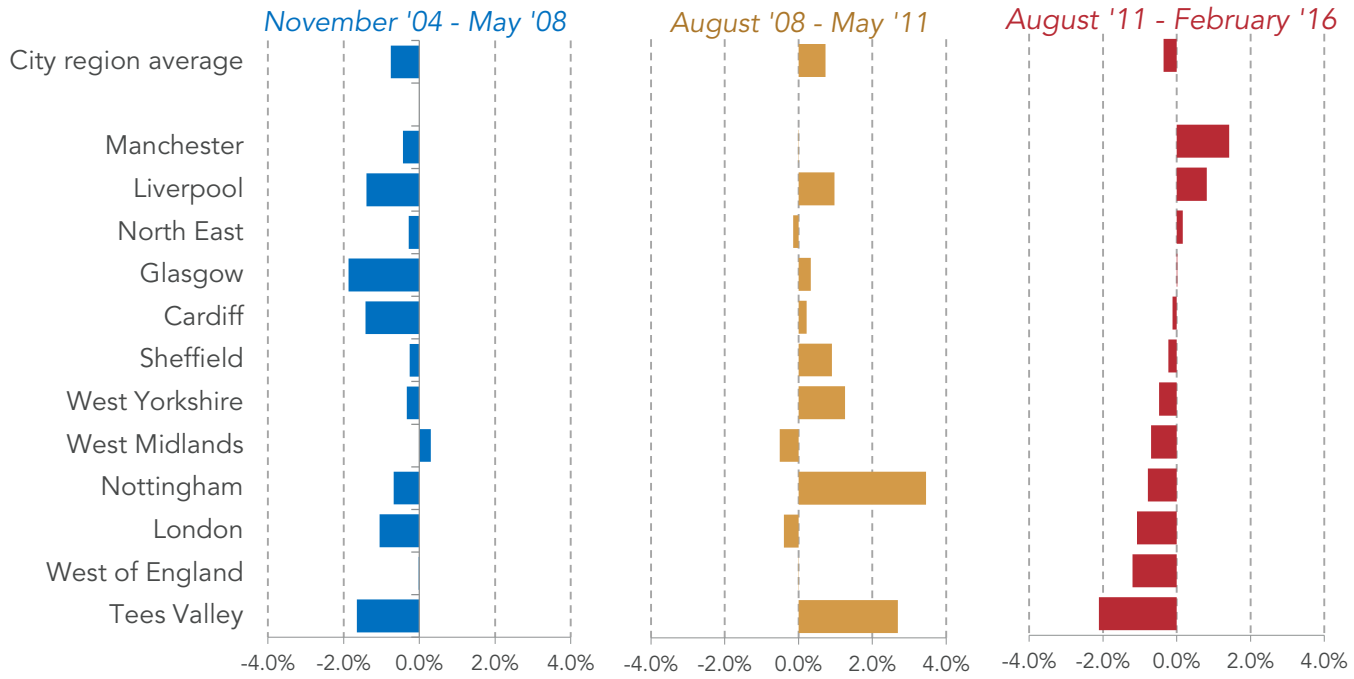
If the post-2011 surge in employment was not accompanied by equally large falls in intra-region disparities, what about earlier periods? Certainly the pre-crisis period of August 2004 to May 2008 was characterised by a more significant fall in inequality between local authorities within Britain's city regions. However, many of these gains were significantly reversed in the immediate fall-out from the financial crisis itself (August 2008 to May 2011).

Figure 14 points to there being three distinct phases since 2004:

- Phase 1: Q4 2004 to Q2 2008: Employment growth for the whole of the UK was flat (0.1 percentage points) and growth for the city regions was also low (-0.1 percentage points) However, many city regions reduced intra-region disparities with a fall in the standard deviation of employment rates of 0.8 percentage points.
- Phase 2: Q3 2008 to Q2 2011: Employment for the whole of the UK and all city regions fell (3 percentage points for the UK and 2.9 percentage points for city regions). Intra-region disparities grew in many city regions with the standard deviation of employment rates rising by 0.7 percentage points.
- Phase 3: Q3 2011 to Q1 2016: Employment growth for the whole of the UK was high (3.8 percentage points) and growth for the city regions was even greater (4.2 percentage points). Yet, despite this intra-region disparities did not narrow much, falling by only 0.4 percentage points.

Figure 14: Intra-city region disparities

Change in standard deviation of employment rates (16 - 64) (percentage points) within city regions



Sources: RF analysis of ONS, *Annual Population Survey/Labour Force Survey*

London stands out for having achieved both a large increase in employment and a reduction in differences within the city

London, Glasgow and the West of England regions have been most successful at reducing intra-region disparities. Table 1 shows that all three reduced the average difference in employment rates between local authorities by over 1 percentage points since 2004, and in London's case reduced them by nearly 3 percentage points.

Table 1: Changing employment rates and intra-regional disparities: November 2004 to February 2016

	Change in city employment rate	Change in standard deviation
London	5.1%	-2.9%
Glasgow	1.7%	-1.4%
West of England	0.7%	-1.0%
Cardiff	2.2%	-0.4%
West Midlands	-3.4%	-0.4%
Tees Valley	0.5%	-0.4%
Manchester	-0.5%	0.2%
West Yorkshire	-1.3%	0.2%
Liverpool	1.3%	0.3%
Nottingham	1.3%	0.5%
North East	1.7%	0.6%
Sheffield	0.4%	0.6%
City region average	0.8%	-0.3%

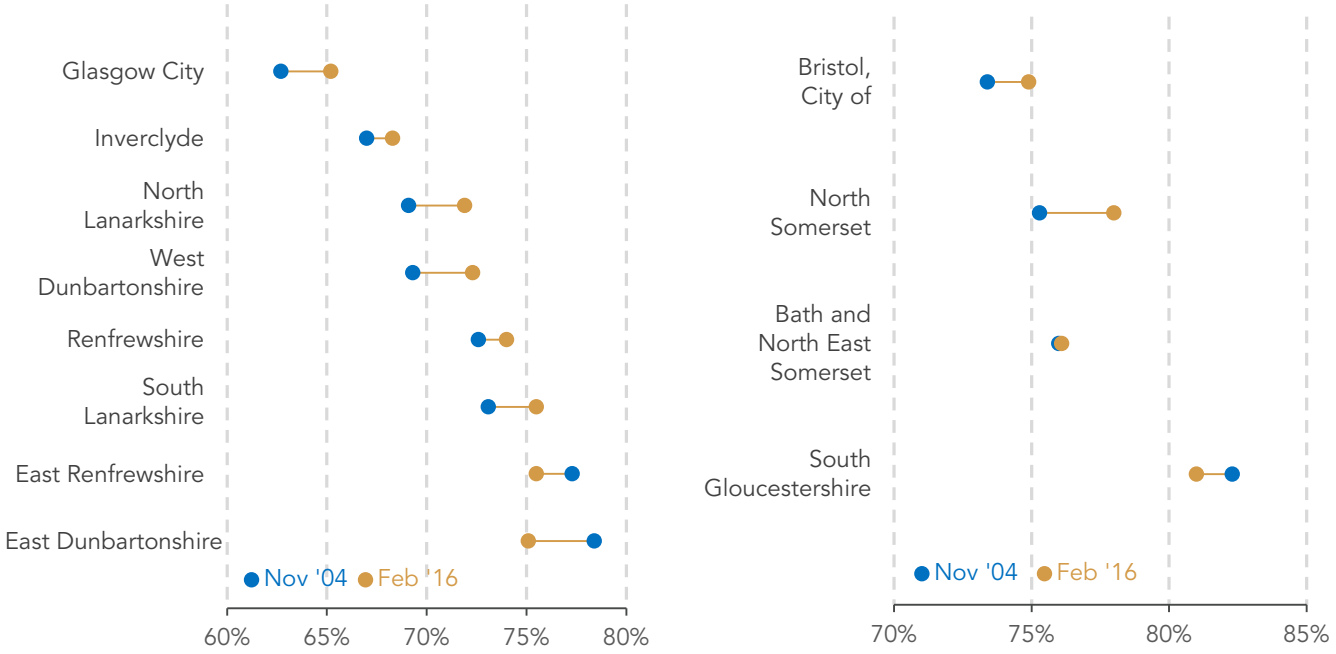
Sources: RF analysis of ONS, *Annual Population Survey/Labour Force Survey*

However, while the improvement In London was coupled with significant employment growth (particularly in the post-crisis period), in the other two cities it was not.[19] In Glasgow and the West of England city region falls in intra-region disparities were the result of action at both ends of the spectrum. That is, both improvements in employment rates in local authorities with generally lower levels of employment and *falls* in employment for the better performing areas. Figure 15 shows that in both cases the employment rate in the best performing authority fell over the period, while, in Glasgow, poorer performing authorities generally saw larger increases than those above them.

[19] Since the financial crisis the West of England's employment rate has increased by 3.3 ppts and Glasgow's by 3.7 ppts. Both are lower than the city region average.

Figure 15: Employment within cities: November 2004 – February 2016

Employment rates (16 - 64, %) for local authorities



Sources: RF analysis of ONS, *Annual Population Survey/Labour Force Survey*

While local authorities with lower employment rates in 2004 made up ground in Glasgow and the West of England, there were few instances of authorities overtaking better performing areas (North Somerset and East Renfrewshire being exceptions).

This was not the case in London. Table 2 shows the employment rates for the 32 local authorities that comprise the capital in November 2004 and February 2016[20] . Those at the top of the table had the highest employment rates in 2004 and unsurprisingly very few of them saw large increases in employment over the period. Many of those local authorities at the bottom of the table – with low employment rates in 2004 – saw large increases in employment over the period. This explains the significant reduction in intra-regional disparities in London over the period. What is also interesting is that many of the authorities with the lowest levels of employment in 2004, such as Tower Hamlets, Haringey and Waltham Forest now have almost average rates. Many low authorities have thus 'leap-frogged' from the bottom of the employment table to the middle. This suggests that there has been a significant reordering of employment in London and a shift, as well as a reduction, in inequality. It is not clear that any other region has experienced anything similar.

[20] The City of London is excluded because of a lack of data.

Table 2: Employment rates within London: November 2004 – February 2016

Local authority	Nov-04	Feb-16	Difference
Bromley	77%	76%	-1%
Bexley	76%	77%	1%
Merton	76%	80%	4%
Wandsworth	76%	79%	3%
Havering	76%	76%	1%
Hillingdon	75%	76%	1%
Redbridge	74%	70%	-5%
Sutton	74%	76%	2%
Kingston upon Thames	74%	74%	0%
Croydon	73%	75%	2%
Richmond upon Thames	71%	78%	7%
Barnet	71%	71%	1%
Harrow	70%	73%	3%
Lewisham	70%	75%	5%
Ealing	70%	71%	1%
Enfield	69%	73%	4%
Hounslow	69%	73%	4%
Camden	68%	69%	1%
Greenwich	67%	73%	5%
Hammersmith and Fulham	67%	76%	9%
Lambeth	67%	79%	12%
Southwark	65%	77%	11%
Brent	64%	68%	4%
Kensington and Chelsea	64%	71%	7%
Westminster	63%	67%	4%
Islington	63%	72%	9%
Waltham Forest	62%	72%	10%
Barking and Dagenham	61%	66%	5%
Haringey	58%	72%	14%
Hackney	56%	69%	13%
Newham	55%	68%	13%
Tower Hamlets	53%	72%	19%
Authority average	68%	73%	5%

Sources: RF analysis of ONS, *Annual Population Survey/Labour Force Survey*

The challenge facing Britain in narrowing the gap between and within cities is substantial. The evidence suggests that differences have remained relatively entrenched since 2004. Nevertheless this static picture hides the fact that some city regions have narrowed the gap between themselves and others and in some regions intra-regional disparities have fallen. London is the best example of a region that has enjoyed progressive (in a regional sense), widely shared employment gains. Some other regions have also made progress, although in some cases this has been less dramatic (Glasgow and West of England) or not sustained (Nottingham, Tees Valley and Cardiff).

In the next section, we consider the performance of different groups of *people* within the different city regions, and the associated scope for improving overall employment performance by targeting policy interventions on the groups who would benefit from the highest levels of support.

Section 4

Labour market variations between and within 'low activity' groups

There is significant variation in 'low activity' groups' employment rates across the country

We know that employment rates differ between and within Britain's major city regions. While these differences are relatively stable over time some cities have managed to reduce the gaps. The previous section looked at the performance of city regions and the local authorities within them, this section looks at *people* within these city regions.

We know from previous research[21] that some people are likely to be in work regardless of where they live in the country. Such 'high performers' (incorporating those aged 30-49, the highly qualified, white, non-single parent and non-disabled adults) exhibit employment rates of around 95 per cent in all regions of the country. Other groups (described as 'low activity' groups for shorthand) displaying traditional labour market disadvantages tend to experience lower employment rates, with marked differences across the country.[22]

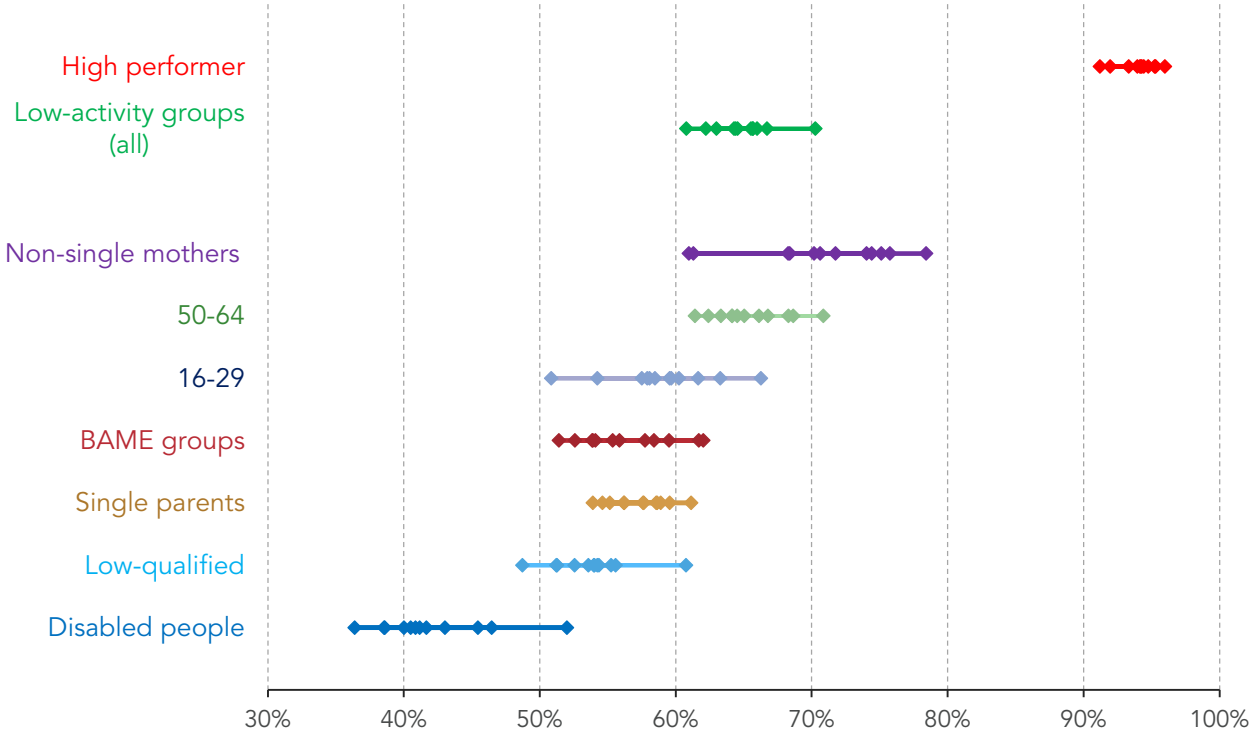
Figure 16 contrasts the high and concentrated employment performance within the 'high performer' group across city regions with the low and more spread performance of 'low activity' groups. The employment rate among 'high performers' ranged from an average between 2013 and 2015 of 96 per cent in the Nottingham city region to 91 per cent in London. In contrast, the employment rate for the 'low activity' group ranged from 70 per cent in the West of England to 62 per cent in the Tees Valley over the same period.

[21] P Gregg & L Gardiner, *The road to full employment: What the journey looks like and how to make progress*, Resolution Foundation, March 2016

[22] This categorisation covers young people, older people, the low-qualified, mothers and single parents, those with disabilities and limiting long-term illnesses and black, Asian and minority ethnic (BAME) people.

Figure 16: Employment rates for high performing and low activity groups across city regions: 2013-2015

Employment rates (%) for low-activity groups for city regions



Notes: See Annex for information on our segmentation of qualifications and definition of disability

Source: RF analysis of ONS, *Labour Force Survey*

Looking at these groups in more detail, Figure 16 also shows the variation in employment rates across the city regions for each low activity group. Variation in employment is greatest for non-single mothers and the disabled. These two groups record both the biggest gap between the worst and the best performing city (around 16-17 percentage points) and the largest standard deviation in the employment rate across all cities.

Figure 16 also shows that specific cities face specific challenges. In Liverpool the employment rate for disabled workers is only 36.4 per cent compared to 52 per cent in the West of England. The employment rate for young workers is only 50.8 per cent in the West Midlands, significantly lower than in any other region. Despite high employment rates for the other groups the West of England is decidedly average when it comes to single-parents, who have an employment rate of 55.2 per cent. This is below the average for the twelve cities.

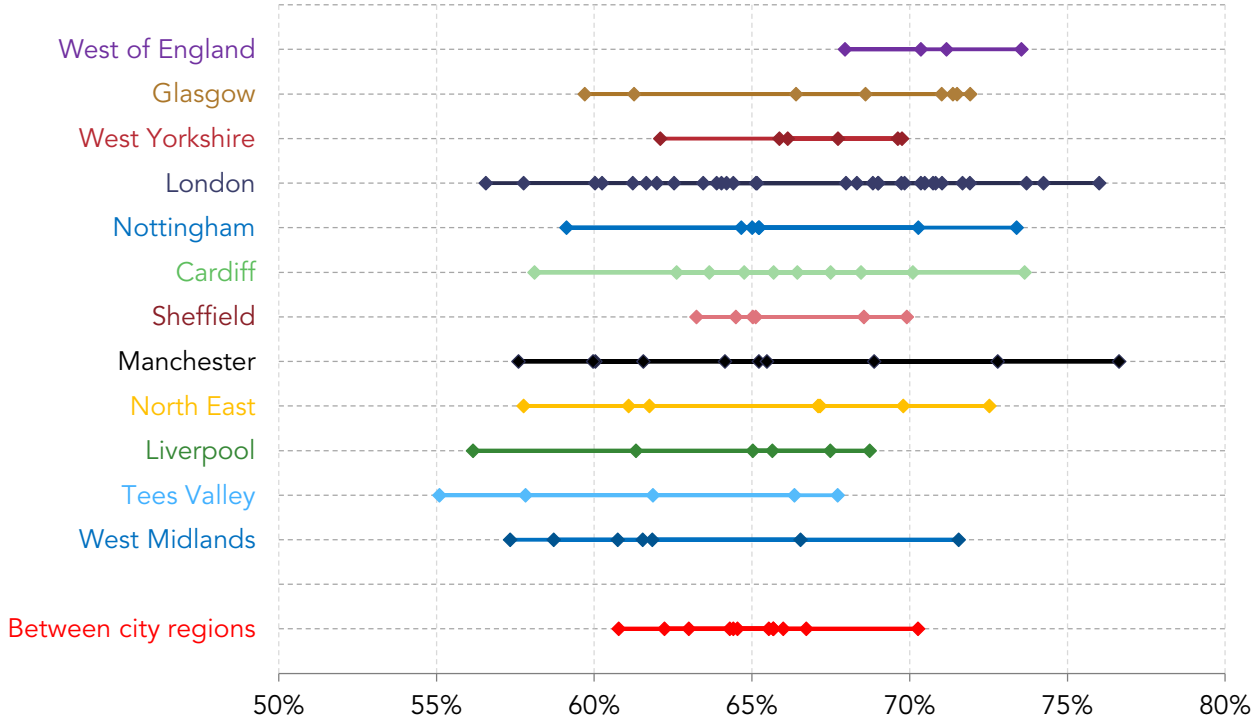
As with overall employment variation, 'low activity' groups display wider differences within cities than between them

Section 2 showed that employment rates differ more within city regions than between them. This is also the case for the employment rates of 'low activity' workers, with differences *within*

cities almost twice as large as those *between* them.[23] The scale of divergence is clear in Figure 17, which shows that the performance of the twelve city regions is far more tightly grouped than the performance of the local authorities within them. This is even more apparent if one excludes the West of England city region which has a far higher employment rate for 'low activity' groups than the other city regions and smaller disparities between local authorities.

Figure 17: Employment rates for low activity groups within cities and between them: 2013-2015

Employment rate (%) for low activity groups across local authorities and across city regions



Source: RF analysis of ONS, *Labour Force Survey*

London and Greater Manchester suffer from the largest intra-regional disparities in terms of the employment rates of 'low activity' groups. Looking at all low activity groups combined (masking the significant variation between different groups we noted in Figure 17 Stockport, the best performing local authority, has an average employment rate for these groups of 77 per cent, whereas the rate is 58 per cent in Manchester. While London and Greater Manchester stand out, many of the other regions suffer from significant intra-regional disparities. Only in the West of England, West Yorkshire and Sheffield is the difference between the best and worst performing local authority less than 10 percentage points.

Drilling down further into variations in the employment performance of the seven 'low activity' groups within in each region we find that that some groups may face greater disadvantages in

[23] The difference in the employment rate of the low activity groups between the best and worst performing city regions is 9.5ppts, compared to 12.9ppts between the best and worst performing local authorities (taking an average across all city regions). The difference in the standard deviation of the employment rate between city regions is 2.3ppts, compared to 4.1ppts between local authorities (taking an average across all city regions).

some cities.[24] For example, although the combined 'low activity' group performs relatively well across West Yorkshire (Figure 17), in no local authority in the region is the employment rate for BAME groups over 70 per cent.

Employment rates vary significantly in the majority of city regions, and some areas in each city region perform well, suggesting that improvements are possible in every region. To do this city regions will have to improve the opportunities available to 'low activity' groups. Different groups face different challenges, which in turn will differ across city regions. Below we look at the potential benefits from closing *between* and *within* city variations in employment rates and give some indication of where the biggest gains stand to be made.

Modelling improvements in employment between and within city regions

Given that employment rates, both in aggregate and for specific groups, vary significantly within and between city regions, what can we realistically expect from local leaders in terms of narrowing these gaps? One way to think about this is to ask how employment rates for city regions would improve if the low activity groups in each region had similar employment rates to similar people in other regions – specifically the best performing region.

Any such outcome would not of course be achievable overnight, but it is a useful thought experiment for considering the potential scale of gains that might be made. We can take two different approaches:

- First, we can consider the outcome associated with raising city-level employment rates among 'low activity' groups to the level recorded in the best performing city region – the West of England. Using this approach we do not raise – for example – single parent employment rates to the level of the 'high performing' group, but simply to the level achieved by single parents in the West of England.
- Second, we can explore how employment rates would change if 'low activity' employment rates in city region local authorities were raised to the best levels recorded *within* those specific city regions. For instance we can see how Greater Manchester's employment rate would improve if the 'low activity groups' in the region performed as well as those in Stockport and Trafford, the two best-performing authorities in that city region.

To provide results for our two scenarios we estimate thirteen regression models. The first estimates the employment rate for 'low activity' groups in the West of England, while the other twelve estimate the employment rate for 'low activity' groups in the best-performing local authorities in each city region. We use the Quarterly Labour Force Survey microdata[25] and construct a pooled time series using twelve quarters of the LFS (Q1 2013 to Q4 2015). This gives us enough observations for each local authority. We analyse what affects the chance that an individual is in employment using various characteristics that have been shown to be important (age, ethnicity, whether or not an individual is a single parent and the like.[26]

Table 3 shows the results from the first regression model that estimates how various characteristics affect an individual's chance of being employed in the West of England region (results for each city region are in Annex 3). Unsurprisingly, the results show that individuals included in one or more of the 'low activity' groups have lower chances of being employed. But the size of each coefficient provides us a sense of scale. For example, the table shows that single parents have a 19.3 per cent lower chance of being in work than someone who is not a single parent in the West of England, controlling for all the other characteristics tested.

[24] As part of the Resolution Foundation's investigation of living standards across Britain's major cities we will be publishing city-specific reports that analyse how low activity groups perform in each region

[25] We use the secure access Quarterly Labour Force Survey as we need local authority identifiers to create the city regions.

[26] We also include year dummies to control for changes in overall employment over time.

Table 3: Effect of various characteristics on chance of being in employment in the West of England region: Q1 2013 – Q4 2015

Variable	Coefficient
Mid-qualified	-6.2%
Low-qualified	-19.3%
Don't know	-11.2%
16-29	-19.3%
50-64	-12.2%
Being a lone parent with dependent children	-19.3%
Being a mother with dependent children	-9.2%
Disabled people	-25.6%
Don't know	-18.1%
BAME	-13.8%
Don't know	-10.0%
2014	1.3%
2015	5.7%
Constant	0.98
R-squared	13.7%
Observations (population-weighted)	7,695,441

Notes: All variables are binary or ordinal and the results show the probability of being in work compared to the baseline or alternate category. For example the probability that mid and low-qualified people will be in work is compared to that for high-qualified people and the probability that younger or older workers are employed is compared to workers aged 30-49. "Don't know" refers to respondents that were not sure if they met the characteristics listed. The coefficients on the year dummies shows that people were more likely to be in work in 2014 and 2015 than 2013.

Source: RF analysis of ONS, *Labour Force Survey*

In some cases individuals will have more than one of the characteristics analysed and their chances of being employed will be affected by each one of them. This is important to bear in mind, particularly when designing policies to support these groups into employment or to keep them in work.

All coefficients in this regression model (and the vast majority of variables in the local authority based models we ran) were significant. In short, the various characteristics tested were good predictors of the probability that an individual was in work. Having established that these models 'work', we can use the results to 'predict' the employment chances of the economically active population across the other eleven city regions of the UK (and across other local authorities in the other twelve regressions) as if they lived in the West of England. We can then calculate the employment rates that areas would achieve if their residents had employment rates like similar people in the West of England (approach 1) or people in the highest employment areas with each city region (approach 2).

These employment rates are shown in Table 4. Column three shows the employment rate that could be achieved by each city region if the 'low activity' groups in their region had employment rates similar to those prevailing in the West of England region. Column four shows the gain in terms of numbers of people. For example if 'low activity' groups in Manchester had similar employment rates to the West of England, the city region's overall employment rate would increase by 3.2 percentage points and 57,000 more people would be in work.

Table 4: Change in employment of narrowing *inter*-regional differences in the employment rates of low activity groups

	Employment rate		
City region	Actual	With narrowing of inter-regional disparities	Boost to employment
Manchester	70.5%	73.7%	57,000
West Midlands	65.3%	71.6%	110,000
Liverpool	69.8%	74.3%	43,000
West Yorkshire	71.6%	74.7%	49,000
Sheffield	69.3%	74.1%	48,000
North East	69.3%	75.4%	75,000
Nottingham	71.4%	75.0%	23,000
West of England	77.1%	77.3%	1,000
Glasgow	72.4%	76.2%	44,000
Cardiff	71.4%	75.5%	39,000
Tees Valley	68.3%	76.0%	32,000
London	72.4%	73.3%	51,000
All city regions (ex. West of England)	70.7%	74.0%	572,000

Notes: Full details of approach is provided in Annex 2.

Source: RF analysis of ONS, *Labour Force Survey*

Across all city regions, excluding the West of England, the employment rate would increase by 3.3 percentage points and nearly 600,000 more people would be in work. In all cases the employment rate for each city region moves closer to that of the West of England. The gap that remains shows the difference in the employment rate that cannot be explained by differences in the performance of 'low activity' groups, for example differences in the employment rates of other groups and compositional differences in the working-age population.[27]

We have shown how much the employment rate of each city region could be improved by addressing inter-region disparities. Table 5 shows the benefit of addressing *intra*-regional disparities instead.

Table 5: Change in employment of narrowing *intra*-regional differences in the employment rates of low activity groups

Notes: Full details of approach is provided in Annex 2.

	Employment rate		
City region	Actual	With narrowing of intra-regional disparities	Boost to employment
Manchester	70.5%	78.9%	150,000
West Midlands	65.3%	71.5%	108,000
Liverpool	69.8%	76.0%	59,000
West Yorkshire	71.6%	74.4%	44,000
Sheffield	69.3%	72.8%	34,000
North East	69.3%	75.1%	72,000
Nottingham	71.4%	75.7%	28,000
West of England	77.1%	78.2%	7,000
Glasgow	72.4%	76.4%	47,000
Cardiff	71.4%	75.8%	42,000
Tees Valley	68.3%	70.6%	10,000
London	72.4%	75.0%	154,000
All city regions (ex. West of England)	70.7%	75.0%	746,000

Source: RF analysis of ONS, *Labour Force Survey*

The employment rates in column 4 were predicted using the twelve regression models that we ran

[27] For some city regions it may also reflect the fact that some 'low activity' groups perform better in the region than in the West of England, although this is not usually the case.

for each city region. Each model was used to 'predict' the employment chances of the economically active population across all local authorities in the relevant region as if they lived in the best performing local authorities in their city. Columns three and four again show the employment gains associated with this thought experiment. They show, for example, that if 'low activity' groups in local authorities in the West Midlands had similar employment rates to people in Solihull and Dudley (the best performing parts of the region), this would boost the region's employment rate by 6.1 percentage points and put approximately 108,000 more people into work.

Looking across all city regions[28] the gains from reducing intra-regional disparities is greater than from reducing inter-regional differences. The employment rate would be 1 percentage point higher, and there would be an additional 174,000 people in work if regions addressed the differences *within* cities (or between local authorities) rather than addressing the differences *between* city regions.

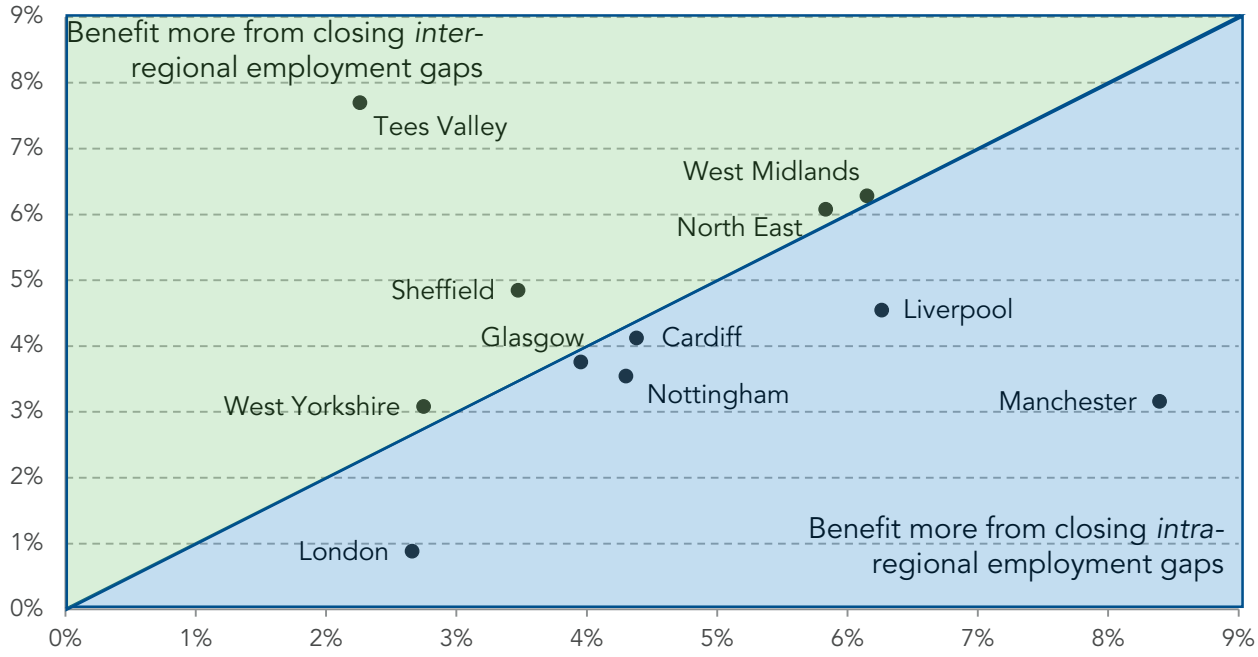
However, and this is important, the benefits differ by region. In some, such as Manchester, narrowing intra-regional differences would be almost three times as effective (in terms of the numbers of people in work) as narrowing the gap between it and the West of England. This speaks to the fact that the region is marked by significant intra-regional inequalities. Conversely in the Tees Valley region the situation is reversed, pointing to the fact that employment rates are significantly lower across the entirety of the region than is the case in the West of England region.

Therefore, while it is true that narrowing intra-regional disparities will provide the greater pay-off on average, different city regions might prefer to pursue a different strategy and focus more on overall improvements across the region as a whole. Figure 18 gives some indication of which strategy could be more beneficial for each city region. Those in the green triangle would record a bigger pay-off from closing inter-regional employment differences, while those in the blue triangle would gain more from closing intra-regional differences. In some cases the pay-offs are very different – compare, for example, Tees Valley and Manchester – whereas in many others they are not.

[28] The West of England region is excluded to allow for a fair comparison between the two approaches.

Figure 18: Closing gaps in employment rates for city regions: 2015

Increase in employment rate (16 - 64) through closing inter-regional and intra-regional differences in employment



Notes: Full details of approach is provided in Annex 2. Results are based on separate modelling of the change in employment from closing the two types of differences, we do not test what would be the result of simultaneously closing both intra-regional and inter-regional differences.

Source: RF analysis of ONS, *Labour Force Survey*

In addition to this city region focus, we can approach this modelling exercise from the alternative perspective of what makes most of a difference to members of the various 'low activity' groups. Table 6 shows how employment rates and numbers in employment improve under the two scenarios for each 'low activity' group.

Table 6: Change in employment for low activity groups under the two scenarios: 2015

	Employment rate			Boost to employment	
	Actual	Narrowing inter-regional differences	Narrowing intra-regional differences	Narrowing inter-regional differences	Narrowing intra-regional differences
Young	60.6%	66.1%	66.5%	302,000	327,000
Mothers	68.2%	73.5%	72.5%	101,000	82,000
Old	66.9%	70.3%	71.3%	158,000	207,000
BAME	60.3%	63.5%	65.5%	121,000	201,000
Lone parent	60.5%	56.6%	63.1%	-33,000	22,000
Low qualified	54.3%	61.9%	58.8%	105,000	62,000
Disabled people	43.6%	52.6%	52.3%	293,000	281,000

Notes: Full details of approach is provided in Annex 2. Some of the people in our 'low activity' groups have more than one of the characteristics and so fall into more than one group. As a result columns five and six sum to more than 572,000 and 746,000 (the boost to city employment calculated above). This speaks to the fact that helping more disabled people into work would have positive spill-over effects as some of these people will be in the other groups.

The employment rate falls for lone parents under the 'narrowing inter-regional differences' scenario because lone parents in the West of England region have a lower employment rate than in some other city regions.

Source: RF analysis of ONS, Labour Force Survey

In terms of absolute numbers the biggest gains are for young workers. However this is partly because young workers are the largest group and so any change in their employment rate has a big effect on the numbers of those in work. The biggest relative gains are for disabled people. This group experiences the largest increase in the employment rate (at approximately 9 percentage points for both approaches).

As with city regions, different groups would benefit differently under the two scenarios. The low-qualified record a greater improvement in their employment rate when *inter*-regional disparities are addressed whereas the opposite is true for BAME workers. While each city will face specific challenges, understanding if a group is struggling across the whole city region, or if some local authorities achieve better outcomes, could inform the policy response.

Section 5

Conclusion

In the aftermath of the vote to leave the EU there has (understandably) been a great deal of attention focused on the impact of Brexit on the national economy and whether it will be positive or negative. The concern is that the recovery from the financial crisis could be at risk. Managing the country's exit from the European Union is an important challenge, however it should not distract from another important task – addressing the living standards deficit that Britain's cities suffer from.

In many respects the economic problems of cities can go unnoticed when national performance is the key barometer by which the economy is judged. Devolution provides an opportunity for local leaders to focus on the specific living standards challenges that their areas face. The same leaders, and the policy of devolution itself, will ultimately be judged on whether it delivers such results. The city mayors[29] who will be elected next May face a variety of challenges, but our research points to six of critical importance:

- In **Manchester,** where Trafford has an employment rate of 79 per cent and Rochdale a rate of 63 per cent, there is a need to spread prosperity more evenly.
- For the **West Midlands** the challenge is boosting overall employment. At 64.4 per cent, it has lowest employment rate –- of any city region by some distance. Furthermore all local authorities in the region are below the national average and Birmingham city has the lowest employment rate in the country.
- Employment rates for ethnic minorities are lowest in the **Tees Valley**. Only by addressing this can the region improve its overall employment rate (68.8 per cent) which is the third worst of all the city regions.
- **Sheffield** has a low pay problem. Hourly wages are lowest in Sheffield (£10.54) of all the city regions and around one in five workers will be on the minimum wage in the city by 2020.
- **Liverpool** has the second lowest overall employment rate. This is partly because the employment rate for disabled people in Liverpool is 36.4 per cent compared to 42 per cent across all the cities.
- The most successful city region – the **West of England** - needs to deal with the problems of success. A failure to build enough houses means that, aside from London, the region has experienced the fastest growth in house prices. Prices are up 33 per cent since April 2009, while wages have only increased by 6 per cent.

Improving the labour market performance of low activity groups is vital if mayors are to be successful. In previous research we have provided a full description of both high-level policy directions and specific recommendations that can boost employment for these groups.[30] Table 7 overleaf outlines this broad policy agenda.

[29] Mayoral elections have been confirmed in Manchester, Liverpool, West Midlands and the Tees Valley. Sheffield and the West of England are also on course to hold elections, although both areas await final confirmation. Two non-urban regions may also elect mayors: Greater Lincolnshire and East Anglia.

[30] P Gregg & L Gardiner, *The road to full employment: What the journey looks like and how to make progress*, Resolution Foundation, March 2016

Table 7: A policy agenda for achieving full employment

A policy agenda aligned to the challenges faced by different 'low activity' groups	
By minimising employment exit	And by maximising entry to employment
For **mothers and single parents**: **1.** The government must defend the UK's impressive record on maternal employment by protecting financial incentives to stay in work and ensuring that rights and regulation around childbirth are normalised and embedded. *>> Reverse plans to weaken work incentives in Universal Credit.* *>> Enhance initial Shared Parental Pay award to encourage take-up.*	For the **low-qualified**: **4.** The government must use the opportunity provided by the Apprenticeship Levy to ensure that apprenticeships and traineeships are more appropriately targeted towards those transitioning from study, unemployment and inactivity into work. *>> Target of half of all new apprenticeships and traineeships allocated to those coming from study or who have been out of work.* *>> An apprenticeship access fund.*
For **disabled people**: **2.** The government must use its forthcoming disability employment White Paper to establish a comprehensive strategy not just for boosting employment entry but for minimising employment exit connected to disability and ill-health. *>> A disability employment outflow reduction target.* *>> A statutory 'right to return' of a year.*	For **young people**: **5.** The government must put in place a system for identifying and engaging those young people struggling in the transition from education to employment. *>> A new tracking system with accountability attached.*
For **older people**: **3.** The government and other organisations must work together to support manageable and sustainable employment flexibility for those approaching retirement. *>> Widespread options for part-payment of pensions when reducing working hours.*	For **BAME groups**: **6.** The government must work with employers to end discrimination on the basis of race and ethnicity, and ensure that employment and skills services effectively engage with BAME groups. *>> A new push on 'name blind' recruitment.* *>> Engage BAME groups in proportion to their prevalence in local workless populations.*
Policies to boost employment across 'low activity' groups	
7. The government must extend employment support services beyond those engaged with the benefit system to provide assistance to wider workless populations. *>> Local 'public employment services' incorporating Jobcentre Plus and other advice and support.*	
8. Local and national employment and skills funding and resources must be targeted in a way that appropriately accounts for multiple disadvantage. *>> The payment model for the new Work and Health Programme.*	
9. The government must support employers to create good-quality part-time and flexible job opportunities, and do so itself in its role as an employer. *>> Prompt employers to offer jobs flexibly when posting on Universal Jobmatch.*	
An overarching framework for boosting employment across the country	
10. The government must ensure that its infrastructure investment, devolution and full employment agendas are fully aligned. *>> National Infrastructure Commission to address transport bottlenecks to further employment growth in forcoming report.*	
11. The government must set out a detailed plan for the implementation of the National Living Wage, with a focus on those sectors and parts of the country in which it is likely to bite hardest. *>> A broader role for the Low Pay Commission to support areas to overcome blockages.*	
12. National, devolved and local governments must work together to evaluate and share learning from efforts to raise participation and employment outcomes in their areas. *>> The first 'demonstration' projects of the government-backed What Works Centre for Local Economic Growth.*	

Beyond this broad policy agenda there are some themes that have emerged from this research that are of specific relevance to city leaders who hope to tackle the issues outlined above.

1. **In most regions more emphasis needs to be placed on addressing intra-regional differences in employment rates.** This reflects the fact that for many, intra-regional differences are larger than those between cities. This may also suggest that city leaders can learn a great deal from initiatives that are already happening within their own region.

2. **Significantly boosting employment requires that city regions target the groups most disconnected from the labour market.** This reinforces a point made in previous work that cities need to go beyond a focus on getting the unemployed and those on out-of-work benefits back into work and look more broadly at raising participation in the workforce. This means that tailored interventions that help people in the groups discussed in this report to enter the labour force, and stay in it, are what is required.

3. **There is a spatial dimension to the employment challenge that the country faces.** Both national and local politicians need to appreciate that labour market performance varies significantly by region, but in some cities employment rates differ more in proximate areas that with different regions of the country, in others the opposite is true.

4. **Place and people interact.** The data suggests that some low activity groups would benefit more from closing intra-regional disparities and others from closing inter-regional differences. This suggests that 'place' and 'people' focused policies should not be viewed as separate things. Devolution presents an opportunity for both national and local politicians to address inequalities that have an individual and a spatial dimension.

Devolution, if it is to be a success, must help improve the living standards of people in Britain's major city regions. A good understanding of the challenges is vital for such improvement to be possible and so future work in this project will explore in greater depth the difficulties that specific regions face as well as taking a closer look at other important issues, including pay, living costs, and skills.

Annex 1: Data and definitions used in this analysis

In this annex we provide details of the various datasets used throughout this report, along with further information on the definitions used in relation to geographies and different group characteristics.

Datasets

Most of the analysis in this report – the descriptions of historical and current labour market patterns and the modelling of employment improvements - is based on the Labour Force Survey (LFS) and Annual Population Survey (APS). In some cases this has been accessed through NOMIS and in other cases we make use of the cross-sectional (quarterly) micro datasets. We also use the Annual Survey of Hours and Earnings (ASHE), the ONS' Small Area Income Estimates and Sub-regional productivity data, DWP's Benefit Expenditure and Caseload Tables and the Land Registry's UK House Price Index.

When accessing data from NOMIS we use the available data for local authorities (which stretches back to 2004), when using the LFS microdata we create a pooled dataset with twelve quarters stretching from Q1 2013 to Q4 2015. This allows us to build up a big enough sample to investigate our low activity groups at a local authority level.

Definitions

Geography

For our analysis comparing different city regions in the UK, we examine twelve major, predominantly urban, city regions that have signed devolution deals with the government and, in some cases, may elect a mayor in 2017. The city regions and the local authorities they encompass are set out in Table 8.

Table 8: The city regions used in this report

City region	Local authority areas
Manchester	Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford, Wigan
West Midlands	Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall, Wolverhampton
Liverpool	Halton, Knowsley, Liverpool, St.Helens, Sefton, Wirral
West Yorkshire	Bradford, Calderdale, Kirklees, Leeds, Wakefield, York
Sheffield	Barnsley, Doncaster, Rotherham, Sheffield, Bassetlaw, Chesterfield
North East	County Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside, Sunderland
Nottingham	Ashfield, Broxtowe, Gedling, Mansfield, Nottingham, Newark and Sherwood, Rushcliffe
Bristol	Bath and NE Somerset, City of Bristol, North Somerset, South Gloucestershire
Glasgow	E Dunbartonshire, E Renfrewshire, Glasgow City, Inverclyde, N Lanarkshire, Renfrewshire, S Lanarkshire, W Dunbartonshire
Cardiff	Blaenau Gwent, Bridgend, Caerphilly, Cardiff, Merthyr Tydfil, Monmouthshire, Newport, Rhondda Cynon Taf, Torfaen, Vale of Glamorgan
Tees Valley	Darlington, Hartlepool, Redcar & Cleveland, Middlesborough, Stockton on Tees
London	32 London Boroughs and the City of London*

* In some cases we, or the ONS, have excluded the City of London from the analysis because of small sample size. This can either make estimates in the City inaccurate or possibly disclosive.

Low activity groups

The 'low activity' groups discussed in this analysis are defined as follows:

- Low-qualified: We use successive versions of the 'hiqual' variable in the LFS, which contains details of an individual's highest qualification, with the variable ranked in descending order. We then split the 18-69 year old UK population into three equally-sized groups (randomly distributing those individuals with qualification levels that straddle the boundaries). We define the bottom third as 'low-qualified' and the top third as 'high-qualified'. By repeating this process in each quarter, we capture 'relative' qualification levels and so control for the general improvement in the qualifications profile of the working age population over time.
- Disabled people: We use the 1995 Disability Discrimination Act (DDA) definition of disability, which was the most commonly-used prior to that established by the Equality Act 2010 (the Equality Act definition excludes some specific groups from its 'core' measure that are included in the DDA definition). We do this because the DDA measure provides the longest consistent definition over time (and captures a population that tends to experience more acute labour market disadvantage than, for example, the 'work-limiting disabled only' group also captured in the data over this time-period). Changes to question wording and questionnaire design mean that measures of disability in the LFS have discontinuities in 2010 and 2013 but as we start our analysis in 2013 this does not affect us.
- Single parents: Single parents are adults of either gender with dependent children and not living with partners. From 2006 onwards, this is defined using the 'type of family unit' variable - the same way as the ONS defines single-parenthood.

- Non-single mothers: Non-single parent mothers are women with dependent children living in couples.
- BAME groups and younger and older age groups are defined using the standard ethnicity and age variables available in the LFS.

Annex 2: Modelling improvements in employment: details of our estimate

We described two scenarios in section 4 in which we model improvements in employment based on city regions narrowing employment gaps *between* them and *within* them. In this annex we provide more detail of our method. In Annex 3 we provide the full set of regression results for the *within*-cities modelling.

Our approach to quantifying improvements is based on geographical convergence in employment and is similar to that used in previous work[31] the difference here being that we are only looking at the narrowing of geographical discrepancies. We do not estimate further time-based improvements or the effect of population growth. Furthermore we look at the 16-64 year old population to make our results comparable to headline employment figures.

Scenario 1: Closing 'between' city employment gaps

To quantify convergence between different city regions, we single out one of the twelve city regions, the West of England, which has consistently the highest employment rate, both overall and, for the most part, also across each of our 'low activity' groups (see Annex 1 for details of these groups).

Using LFS records for the economically active individuals (16-64 year olds) in this city region during 2013-15, we run an ordinary least squares regression with the following parameters:

Employment chance = i.qualifications(low; mid; high) + i.age group(18-29; 30-49; 50-64; 65-69) + i.single-parenthood + i.motherhood + i.disability + i.ethnicity(white; BAME) + i.year

We use the resulting model to predict the employment chances of the economically active population across the other eleven city regions of the UK, as if they lived in the West of England in 2013-15. In this way, our analysis controls for the different characteristics of the population in different city regions, and the overlap between different low activity characteristics within these (for example, the reduced likelihood of employment if someone is both disabled and a single parent).

Using these 'predicted' employment probabilities we can calculate a predicted employment rate for each city region as if the residents of these cities performed as well in the labour market as those in the West of England.

Scenario 2: Closing 'within' city employment gaps

To quantify the convergence within city regions, we single out two local authorities that have the consistently highest employment rate in each city region, both overall and for the most part across each of our 'low activity' groups. To ensure that these local authorities make up enough of the population of the city region they must make up at least 15 per cent of the population, and if not then further local authorities are included, taking the best remaining performers.[32]

[31] P Gregg & L Gardiner, *The road to full employment: What the journey looks like and how to make progress, Resolution Foundation*, March 2016

[32] In all city regions aside from Cardiff and London, the best two performing local authorities make up 15 per cent or more of the total population. In Cardiff we use the three best performing local authorities and in London it is five.

Using LFS records for the economically active individuals (16-64 year olds) in these local authorities during 2013-15, we run an ordinary least squares regression with the following parameters:

Employment chance = i.qualifications(low; mid; high) + i.age group(18-29; 30-49; 50-64; 65-69) + i.single-parenthood + i.motherhood + i.disability + i.ethnicity(white; BAME) + i.year

We run twelve such models, one for each city region. We use the resulting models to predict the employment chances of the economically active population across the other local authorities in the city region, as if they lived in the best local authorities in 2013-15.

Using these 'predicted' employment probabilities we can calculate a predicted employment rate for each city region as if the residents performed as well in the labour market as those in the best performing local authorities in their city region.

Annex 3: Regression results for each city region

Table 8 shows the regression results for each city region. For each model the best-performing two, or in Cardiff and London's cases, three and five, local authorities were used. The dependent variable was the probability of being employment during the period from 2013 to 2015. Explanatory variables were the range of characteristics that define our low activity groups. All models were run with year dummies and robust standard errors.

Table 9: Full results for the twelve *within*-city regression models

Variable	Manchester	West Midlands	Liverpool	West Yorkshire	Sheffield	North East	Nottingham	West England	Glasgow	Cardiff	Tees	London
Mid-qualified	-1%	-10%	-8%	-10%	-9%	-8%	-1%	-8%	-11%	0%	-7%	-13%
Low-qualified	-16%	-32%	-23%	-21%	-26%	-22%	-11%	-20%	-14%	-16%	-27%	-25%
Don't know	-3%	-12%	-8%	-8%	-16%	-9%	-5%	-15%	-12%	-5%	-15%	-9%
16-29	0%	-26%	-19%	-24%	-14%	-21%	-30%	-19%	-17%	-20%	-28%	-19%
50-64	-14%	-13%	-10%	-12%	-9%	-9%	-22%	-10%	-17%	-12%	-15%	-10%
Being a lone parent with dependent children	-11%	-18%	-15%	-15%	-20%	-16%	-7%	-21%	-13%	-11%	-18%	-11%
Being a mother with dependent children	0%	-13%	-6%	-9%	-7%	0%	-2%	-12%	-3%	-10%	-6%	-20%
Disabled people	-27%	-29%	-32%	-23%	-30%	-34%	-33%	-26%	-31%	-28%	-25%	-24%
Don't know	-39%	-14%	-36%	-23%	-29%	-40%	-36%	-15%	-22%	-19%	-22%	-13%
BAME	0%	-17%	-5%	-17%	-6%	-14%	-10%	-13%	-11%	0%	-15%	-13%
Don't know	-10%	-40%	0%	20%	0%	-73%	0%	-35%	-68%	0%	0%	-3%
2014	0%	1%	-1%	1%	6%	5%	7%	2%	-3%	-1%	0%	2%
2015	0%	3%	5%	3%	5%	4%	7%	9%	4%	1%	1%	2%
Constant	5%	108%	99%	100%	100%	98%	97%	98%	101%	97%	103%	102%
R-squared	98%	22%	17%	14%	16%	19%	20%	15%	17%	13%	18%	18%
Observations (population-weighted)	3,700,439	3,735,479	2,701,522	2,908,419	2,410,570	2,792,466	1,467,901	5,141,804	1,906,470	2,119,489	2,051,100	9,399,438

Notes: Each column shows the results of one of the twelve models. Where coefficients are 0% the variable was not significant. All variables are binary or ordinal and the results show the probability of being in work compared to the baseline or alternate category. For example the probability that mid and low-qualified people will be in work is compared to that for high-qualified people and the probability that younger or older workers are employed is compared to workers aged 30-49. "Don't know" refers to respondents that were not sure if they met the characteristics listed.

Source: RF analysis of ONS, *Labour Force Survey*

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Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

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- *developing practical and effective policy proposals; and*
- *engaging with policy makers and stakeholders to influence decision-making and bring about change.*

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